FORM 18-K

For Foreign Governments and Political Subdivisions Thereof

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

ANNUAL REPORT

of

PROVINCE OF NEW BRUNSWICK

CANADA
(Name of Registrant)

Date of end of last fiscal year: March 31, 1999

SECURITIES REGISTERED *

(As of close of fiscal year)

Title of issue	Amounts as to which registration is effective	Names of exchanges on which registered
N/A	N/A	N/A

Names and addresses of persons authorized to receive notices and communications from the Securities and Exchange Commission:

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* The Registrant is filing this annual report on a voluntary basis.

FORM 18-K March 31, 1999

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Province of New Brunswick
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The information set forth below is to be furnished:

1. *In respect of each issue of securities of the registrant registered, a brief statement as to:*

(a) *The general effect of any material modifications, not previously reported, of the rights of the holders of such securities.*

None.

(b) *The title and the material provisions of any law, decree or administrative action, not previously reported, by reason of which the security is not being serviced in accordance with the terms thereof.*

None.

(c) *The circumstances of any other failure, not previously reported, to pay principal, interest, or any sinking fund or amortization installment.*

None.

2. *A statement as of the close of the last fiscal year of the registrant giving the total outstanding of:*

(a) *Internal funded debt of the registrant. (Total to be stated in the currency of the registrant. If any internal funded debt is payable in a foreign currency, it should not be included under this paragraph (a), but under paragraph (b) of this item).*

Reference is made to page 31 of Exhibit d hereto.

(b) *External funded debt of the registrant. (Totals to be stated in the respective currencies in which payable. No statement needs to be furnished as to intergovernmental debt.)*

Reference is made to page 31 of Exhibit d hereto.

3. *A statement giving the title, date of issue, date of maturity, interest rate and amount outstanding, together with the currency or currencies in which payable, of each issue of funded debt of the registrant outstanding as of the close of the last fiscal year of the registrant.*

Reference is made to pages 46 and 47 of Exhibit d hereto.

4. (a) *As to each issue of securities of the registrant which is registered, there should be furnished a breakdown of the total amount outstanding, as shown in Item 3, into the following:*

(1) *Total amount held by or for the account of the registrant.*

As at March 31, 1999, the total amount held by or for the account of the registrant was as follows:

Date of Maturity	**Interest Rate (%)**	**Series**	**Amount Outstanding**	**Amount Held in Sinking Fund**	**Date Issued**
1 Oct 2002	7 1/8	EL	US$257,000,000	US$17,630,000	Oct 1992 Dec 1993
29 June 2004	7 5/8	EY	200,000,000	17,000,000	June 1994
20 June 2005	6 1/2	FH	150,000,000	49,455,000	June 1995
15 Feb 2013	7 5/8	EO	200,000,000	–	Feb 1993
15 Aug 2013	6 3/4	ET	200,000,000	53,567,000	Sept 1993
3 Mar 2018	9 1/2	DM	139,005,000	–	Mar 1988
15 May 2020	9 3/4	DU	200,000,000	–	May 1990
1 May 2022	8 3/4	EI	200,000,000	–	May 1992

(2) *Total estimated amount held by nationals of the registrant (or if registrant is other than a national government by the nationals of its national government); this estimate need be furnished only if it is practicable to do so.*

Not practicable to furnish.

(3) *Total amount otherwise outstanding.*

Date of Maturity	Interest Rate (%)	Series	Amount Otherwise Outstanding	Date Issued
1 Oct 2002	7 1/8	EL	US$239,370,000	Oct 1992 Dec 1993
29 June 2004	7 5/8	EY	183,000,000	June 1994
20 June 2005	6 1/2	FH	100,545,000	June 1995
15 Feb 2013	7 5/8	EO	200,000,000	Feb 1993
15 Aug 2013	6 3/4	ET	146,433,000	Sept 1993
3 Mar 2018	9 1/2	DM	139,005,000	Mar 1988
15 May 2020	9 3/4	DU	200,000,000	May 1990
1 May 2022	8 3/4	EI	200,000,000	May 1992

(b) *If a substantial amount is set forth in answer to paragraph (a)(1) above, describe briefly the method employed by the registrant to reacquire such securities.*

The Province of New Brunswick sinking fund is a general investment type fund. The *Provincial Loans Act* and in some cases the terms and conditions of the debenture issue specify the minimum rate at which sinking fund installments will be made. Purchases of bonds into the fund are generally discretionary. Many of the bonds purchased into the fund are New Brunswick or New Brunswick guaranteed bonds. The Province is also permitted to buy debt instruments issued or guaranteed by the Government of Canada or any province of Canada and other debt instruments defined by the *Provincial Loans Act.*

5. *A statement as of the close of the last fiscal year of the registrant giving the estimated total of:*

(a) *Internal floating indebtedness of the registrant. (Total to be stated in the currency of the registrant.)*

Reference is made to pages 32, 46 and 47 of Exhibit d hereto.

(b) *External floating indebtedness of the registrant. (Total to be stated in the respective currencies in which payable.)*

Reference is made to page 46 of Exhibit d hereto.

6. *Statements of the receipts, classified by source, and of the expenditures, classified by purpose, of the registrant for each fiscal year of the registrant ended since the close of the latest fiscal year for which such information was previously reported. These statements should be so itemized as to be reasonably informative and should cover both ordinary and extraordinary receipts and expenditures; there should be indicated separately, if practicable, the amount of receipts pledged or otherwise specifically allocated to any issue registered, indicating the issue.*

Reference is made to pages 19 to 28 and 43 to 45 of Exhibit d hereto.

7. (a) *If any foreign exchange control, not previously reported, has been established by the registrant (or if the registrant is other than a national government, by its national government), briefly describe such foreign exchange control.*

None.

(b) *If any foreign exchange control previously reported has been discontinued or materially modified, briefly describe the effect of any such action, not previously reported.*

Not applicable.

This annual report comprises:

(a) *Pages numbered 1 to 5 consecutively.*

(b) *The following exhibits:*

(d) Current Province of New Brunswick Description.

(e) Audited Financial Statements of the Province of New Brunswick for the fiscal year ended March 31, 1999, as published in the Public Accounts.

(f) Consent of the Auditor General of the Province of New Brunswick.

(g) Audited Financial Statements of New Brunswick Power Corporation for the fiscal year ended March 31, 1999, as published in its annual report.

(h) Consent of Deloitte & Touche.

(i) A Financial Review of the Province of New Brunswick September 30, 1999, Grant Thornton.

(j) Consent of Grant Thornton.

This annual report is filed subject to the Instructions for Form 18-K For Foreign Governments and Political Subdivisions Thereof.

SIGNATURE

Pursuant to the requirements of the *Securities Exchange Act of 1934,* the registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized, at Fredericton, Canada on the 30th day of December, 1999.

Province of New Brunswick

By: /s/ Bryan MacDonald
Bryan MacDonald
Executive Director of
Treasury and Debt Management
Department of Finance

EXHIBIT INDEX

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Exhibit d

SPEM REDUXIT

Province of New Brunswick

December 13, 1999

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All dollar amounts herein are in Canadian dollars unless otherwise specified. On December 13, 1999, the noon buying rate in the City of New York for cable transfers payable in Canadian dollars, as reported by The Federal Reserve Bank of New York, was $1.4796 per U.S. dollar.

Financial data for the Province of New Brunswick ("New Brunswick" or the "Province") have been rounded. Certain information presented in tabular form may not add to the total presented due to such rounding.

Certain historical financial data for the Province have been restated to reflect several accounting changes including the reclassification of sinking fund earnings from non-budgetary to budgetary (fiscal year ended March 31, 1996), the inclusion of estimated costs of existing and future claims for the Workplace Health, Safety and Compensation Commission (fiscal year ended March 31, 1997), the recognition of the following liabilities: accrued retirement allowance entitlements; accrued summer pay for teachers; accrued vacation pay entitlements and liability for Workers' Compensation benefits for Provincial employees (fiscal year ended March 31, 1998) and the accounting changes as per Exhibit (i) (fiscal year ended March 31, 1999).

Compound annual rates of growth are computed by using the "geometric average method", which is based on first and last year observations of the variables rather than all observations over the period concerned.

PROVINCE OF NEW BRUNSWICK

The following summary information is qualified in its entirety by the information contained herein.

	Year Ended December 31,					Compound Annual Growth Rate
	1994	1995	1996	1997	1998	1994-98
			(Canadian dollars in millions)			
Economy[1]						
Gross Domestic Product at market prices	$15,261	$16,349	$16,523	$16,806	$17,231	3.1%
Personal Income	13,915	14,439	14,603	14,809	15,139	2.1
Retail Trade	4,974	5,136	5,449	5,614	5,958	4.6
Manufacturing Shipments	7,044	8,317	8,365	8,448	8,079	3.5
Foreign Exports	4,226	5,419	5,383	5,464	5,455	6.6
Population at July 1 (in thousands)	751	752	753	754	753	0.1
Unemployment Rate	12.5%	11.5%	11.7%	12.8%	12.1%	
Change in Consumer Price Index	0.5	1.6	1.5	1.9	0.6	1.4

	Year Ended March 31,				Budget Estimates
	1996	1997	1998	1999	2000
		(Canadian dollars in millions)			
Government Finances					
Ordinary Account Surplus (Deficit)	$147.1	$164.3	$64.1	$(124.4)	$58.0
Net Capital Expenditure	(295.3)	(277.7)	(256.2)	(283.3)	(244.9)
Surplus (Deficit) on Special Purpose Account	(0.4)	(0.9)	20.3	8.7	0.1
Surplus (Deficit) on Special Operating Agency	2.6	1.5	5.2	5.3	(3.9)
Earnings from Sinking Fund	186.1	181.2	200.2	226.5	203.0
Budgetary Surplus (Deficit)	40.6	66.0	34.8	(164.3)	12.3

	Year Ended March 31,				
	1995	1996	1997	1998	1999
			(Canadian dollars in millions)		
Provincial Purpose Funded Debt and Capital Loans[2]					
Gross Funded Debt and Capital Loans	$6,288.8	$6,307.8	$6,472.5	$6,685.1	$7,194.0
Less Sinking Funds	1,921.8	2,082.1	2,304.9	2,440.0	2,693.2
Net Funded Debt and Capital Loans	$4,367.0	$4,225.7	$4,167.7	$4,245.1	$4,500.8

	1995	1996	1997	1998	1999
			(Canadian dollars in millions)		
Advances to New Brunswick Power Corporation[2]					
Gross Advances	$2,920.1	$3,113.4	$3,098.3	$3,021.1	$3,017.1
Less Sinking Funds	94.5	127.5	164.7	205.2	251.2
Net Advances	$2,825.6	$2,985.9	$2,933.6	$2,815.9	$2,765.9

	1995	1996	1997	1998	1999
			(Canadian dollars in millions)		
Contingent Liabilities[1]					
Gross Contingent Liabilities	$99.5	$69.6	$70.8	$45.4	$64.5
Less Sinking Funds	—	—	—	—	—
Net Contingent Liabilities	$99.5	$69.6	$70.8	$45.4	$64.5

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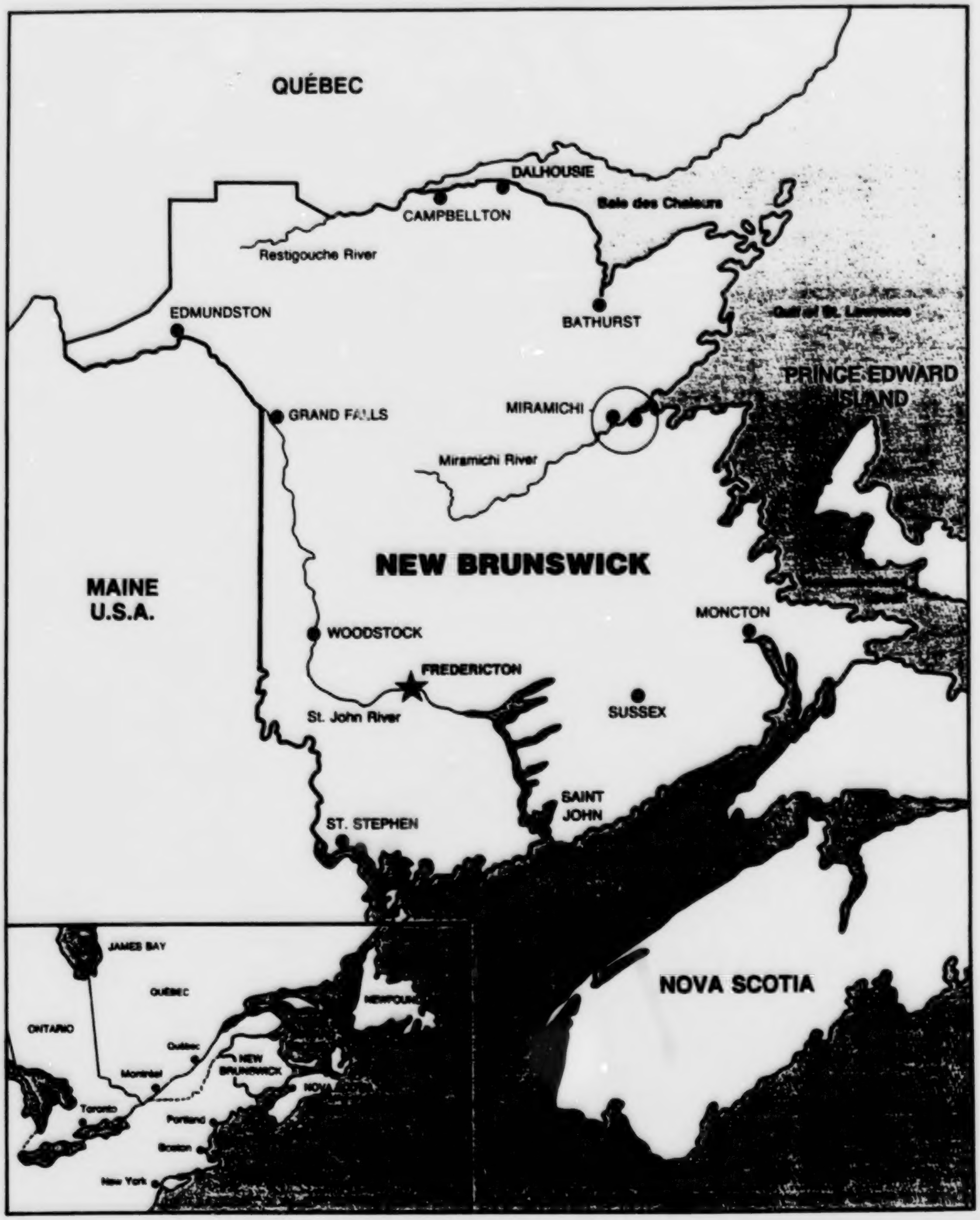
[1] Source: Statistics Canada – Numbers are subject to adjustment.

[2] Foreign currency issues are expressed as the Canadian dollar equivalent at fiscal year end rates of exchange or, where hedges are in place, at the rates of exchange established by such hedges.

MAP OF THE PROVINCE



QUÉBEC
DALHOUSIE
CAMPBELLTON
Baie des Chaleurs
Restigouche River
EDMUNDSTON
BATHURST
Gulf of St. Lawrence
PRINCE EDWARD ISLAND
MIRAMICHI
GRAND FALLS
Miramichi River
NEW BRUNSWICK
MAINE
U.S.A.
MONCTON
WOODSTOCK
FREDERICTON
SUSSEX
St. John River
SAINT JOHN
ST. STEPHEN
NOVA SCOTIA
JAMES BAY
QUÉBEC
ONTARIO
NEWFOUNDLAND
Québec
NEW BRUNSWICK
Montréal
NOVA
Toronto
Portland
Boston
New York

PROVINCE OF NEW BRUNSWICK
GENERAL INFORMATION

Introduction

The Province of New Brunswick is located on the eastern seaboard of Canada and has a total area of 28,355 square miles of which about 12,877 square miles is Crown land owned by the Province. The St. John River flows for a distance of over 300 miles through the Province to its mouth on the Bay of Fundy. The Province's population is concentrated principally in the valleys of the St. John and other rivers.

A large part of the Province is covered by forests, which constitute a major natural resource. Other natural resources include fish and shellfish, farmland and base metals, coal, potash, limestone and other minerals. The location of the Province provides the advantage of cost effective water transportation for its products to export markets in the eastern U.S., Great Britain and Western Europe. Saint John, the Province's largest city, located at the mouth of the St. John River on the Bay of Fundy, is one of the two principal seaports in eastern Canada which remain open throughout the year. Consequently, some Canadian shipping, which would otherwise pass through the St. Lawrence River, is diverted to the Saint John port during the winter months.

According to Statistics Canada, the population of the Province on July 1, 1999 was estimated at 754,741. The three largest urban areas of the Province and their respective populations based on 1996 census figures are Saint John (125,705), Moncton (113,491) and Fredericton (78,950), the capital of the Province.

Government

Canada consists of a federation of provinces and Federal territories with a constitutional division of powers between the Federal and provincial governments established by the Constitution Acts, 1867 and 1982. Under the Constitution Acts, 1867 and 1982 the provinces are assigned jurisdiction over health, social services, education, municipal institutions, property and civil rights, natural resources and other matters of purely private or local concern. The Parliament of Canada has jurisdiction over all areas not assigned exclusively to the provincial legislatures, including such matters as the federal public debt and property, the regulation of trade and commerce, currency and coinage, banks and banking, national defense, the postal services, railways and navigation and employment insurance.

The *Constitution Act, 1982* provides for enlarged provincial jurisdiction over and taxation of certain natural resources and electrical energy, a Charter of Rights and Freedoms, including language rights, the principles of the reduction of regional economic disparities and the making of fiscal equalization payments to certain provinces by the Government of Canada, and for the amendment of the constitution in Canada. Each province owns mineral and other resources on its provincial Crown Lands and may own sub-surface resources on its other lands.

The most significant issue during the past years pertaining to the Canadian Constitution has been Quebec secession. On August 20, 1998, the Supreme Court of Canada rendered its decision that under the Constitution Acts, 1867 and 1982 and international law Quebec could not unilaterally secede from Canada without entering into negotiations with the other participants in the Canadian Constitution. However, the Supreme Court also ruled that if a clear majority of Quebecers in response to a clear question voted to secede, the rest of Canada would be obliged to enter into negotiations with Quebec.

The executive power in the Province is vested in the Lieutenant-Governor acting on the advice of the Executive Council. The Executive Council is responsible to the Legislative Assembly. The Lieutenant-Governor, who is the representative of the Queen, is appointed by the Governor-General of Canada in Council. Members of the Executive Council are appointed by the Lieutenant-Governor on the nomination of the Premier from members of the Legislative Assembly. There are presently 16 members of the Executive Council, including the Premier, the Honourable Bernard Lord. The present Lieutenant-Governor of the Province, Her Honour Marilyn Trenholme Counsell, took office on April 18, 1997.

Legislative power in the Province is exercised by the Legislative Assembly and legislation becomes effective upon the assent of the Lieutenant-Governor unless otherwise specified in the legislation. The Legislative Assembly is elected for a term of five years and may be dissolved at any time by the Lieutenant-Governor on the advice of the Premier of the Province. Forty-four members are from the Progressive Conservative Party, ten members are from the Liberal Party and one member is from the New Democratic Party. All were elected on June 7, 1999.

Regional Cooperation

The Province, along with Nova Scotia and Prince Edward Island, is one of the three Maritime provinces of Canada. In the summer of 1992, each of the Maritime provinces enacted common legislation which set out a vision of economic union within the region. Since the enactment of the *Maritime Economic Cooperation Act*, Maritime governments have pursued joint initiatives in many sectors of the economy aimed at enhancing the competitiveness of the region's business community and providing more efficient and effective public services within the region. The neighbouring province of Newfoundland also participates in certain initiatives.

International Trade Agreements

The Government of New Brunswick believes that Canada's participation in the Canada-U.S. Free Trade Agreement and North American Free Trade Agreement improve the Province's international trade opportunities, particularly with neighbouring U.S. states. The conclusion of the Uruguay Round of GATT, and the subsequent formation of the World Trade Organization, is beneficial for the export-oriented economies of both Canada and New Brunswick. The Province participates actively on Federal/Provincial consultative committees concerned with implementation and future negotiation issues.

Negotiations which concluded in 1996 between Canada and the U.S. on the trade of softwood lumber resulted in the implementation of quotas in several Canadian provinces. New Brunswick benefits from a formal exchange of letters which exempts New Brunswick from this agreement due to the Province's relatively small size and provides incremental protection to its softwood lumber industry.

THE ECONOMY

Recent Developments

As the U.S. economy continued its strong performance, Canadian economic growth slipped slightly from the previous year due, in large part, to weak world commodity prices. In New Brunswick, the rate of economic growth increased in 1998 as several significant investment projects commenced. Estimates for real Gross Domestic Product at market prices ("Real GDP") for 1998 indicate an increase of 2.3% for the Province from 1997, compared to the national rate of 3.1%. Nationally, economic growth was led by Newfoundland, largely as a result of oil and gas and resource development projects, and Ontario, principally as a consequence of the performance of its manufacturing sector. For New Brunswick, strong performances by the manufacturing, wholesale and retail trade, communications, business services and public sector industries were partially offset by weaknesses in the primary sector industries. Output from the goods producing sector rose 0.6%, while output from the service sector increased 3.7%.

In 1998, retail sales growth in New Brunswick outpaced the national rate of growth for the third time in four years, increasing 6.1% compared to the 3.6% national increase. In 1998, strong sales of motor vehicles were reported in New Brunswick, increasing 9.4% while sales increased 3.3% in Canada. New Brunswick's Consumer Price Index increased 0.6%, versus the 0.9% national rate of increase. Declining world commodity prices for petroleum and pulp and paper products led to a decline of 4.4% in the nominal value of the Province's manufacturing shipments in 1998, compared to the national increase of 3.2%. Wages and salaries earned in New Brunswick increased 2.6% to $8.0 billion in 1998, while rising 4.2% in Canada. New Brunswick's housing starts declined 9.4% from the previous year, to 2,447. Due primarily to the start of major projects in the transportation and natural gas pipeline sectors, capital investment in the Province increased 9.7% from 1997 while capital investment in Canada increased by 0.8%. In the agriculture sector, farm cash receipts increased 7.5% over 1997 as potato receipts reached record levels. Despite volume increases in base metals, the decline in world mineral commodity prices and the closure of a potash mine in 1997 led to a drop in the value of provincial mineral production of 10.6% to $852.2 million.

In 1998, foreign exports exhibited little change from 1997 and totaled over $5.4 billion for the third time in four years. Despite the worldwide slump in commodity prices, foreign exports of forest products increased 15.2% in 1998 compared to the previous year. Energy products reported a decrease of 26.4%, while food products rose marginally.

New Brunswick's employment rose by 8,100 in 1998, or 2.6%, more than offsetting the increase in the labour force and leading to the provincial annual unemployment rate decreasing from 12.8% in 1997 to 12.1% in 1998.

Economic Activity

In 1998, the nominal value of GDP of the Province was estimated at $17,231 million (in current prices) or $22,892 per capita. Over the 1994 to 1998 period, Real GDP grew at a compound annual growth rate of 1.9% compared to a national rate of growth of 2.9%.

Between 1994 and 1998, the output from goods producing industries increased at a compound annual growth rate of 1.3% to $3,801.9 million, while output from the service producing industries increased at a compound annual growth rate of 2.9% to $9,898.4 million. The gross value of manufacturing shipments increased at a compound annual growth rate of 3.5% (in current prices) over the same period and foreign exports of commodities rose at a compound annual growth rate of 6.6% (in current prices).

Personal income in the Province increased from $13,915 million in 1994 to $15,139 million in 1998 (in current prices), a compound annual growth rate of 2.1%. On a per capita basis, personal income increased from $18,530 to $20,113 (in current prices) over the same period, growing at a compound annual growth rate of 2.1% which compares favourably to a 2.4% compound annual growth rate for Canada. Retail sales for the Province increased at a compound annual growth rate of 4.6% (in current prices) over the same period.

The following table sets forth selected indices of economic activity for the Province and for Canada as a whole for the years 1994 through 1998.

SELECTED ECONOMIC INDICATORS

	Year Ended December 31,					Compound Annual Growth Rate
	1994	1995	1996	1997	1998	1994-98
			(millions of dollars)			
Gross Domestic Product at market prices	$15,261	$16,349	$16,523	$16,806	$17,231	3.1%
Gross Domestic Product (Canada) at market prices	767,506	807,088	833,921	873,947	895,704	3.9
Per Capita Gross Domestic Product (in dollars)	20,322	21,747	21,943	22,293	22,892	3.0
Per Capita Gross Domestic Product (Canada) (in dollars)	26,433	27,495	28,105	29,123	29,565	2.8
Personal Income	13,915	14,439	14,603	14,809	15,139	2.1
Per Capita Personal Income (in dollars)	18,530	19,206	19,393	19,644	20,113	2.1
Per Capita Personal Income (Canada) (in dollars)	22,071	22,699	22,954	23,536	24,246	2.4
Private and Public Investment (new)	2,399	2,563	2,733	2,675	2,934	5.2
Retail Trade	4,974	5,136	5,449	5,614	5,958	4.6
Manufacturing Shipments	7,044	8,317	8,365	8,448	8,079	3.5
Foreign Exports	4,226	5,419	5,383	5,464	5,455	6.6
Real Gross Domestic Product at market prices (millions of 1992 dollars)	$14,643	$15,071	$15,320	$15,427	$15,782	1.9
Real Gross Domestic Product (Canada) at market prices (millions of 1992 dollars)	748,350	769,082	782,130	813,031	838,265	2.9
Change in Consumer Price Index	0.5%	1.6%	1.5%	1.9%	0.6%	1.4
Change in Consumer Price Index (Canada)	0.2	2.2	1.6	1.6	0.9	1.6

Source: Statistics Canada.

New Investment

The following table sets forth statistics regarding new investment in the Province, by sector, and compares total new investment with Canada as a whole.

NEW INVESTMENT

	Year Ended December 31,				
	1994	1995	1996	1997	1998[1]
			(millions of dollars)		
Construction Investment					
Housing	$622.7	$503.2	$567.8	$649.6	$603.6
Transportation and Warehousing	96.7	155.4	148.2	17.3	366.3
Public Administration	307.5	390.0	420.4	437.5	364.7
Retail Trade	33.6	28.6	26.0	36.8	49.7
Manufacturing	25.6	98.0	136.9	81.9	43.2
Agriculture, Forestry, Fishing and Hunting	27.0	28.6	25.8	54.3	32.9
Educational Services	55.2	50.5	51.0	38.1	25.3
Information and Cultural Industries	20.5	20.7	31.7	65.0	21.0
Health Care and Social Assistance	39.5	62.8	51.8	27.3	20.1
Other Services	4.9	2.6	2.6	4.5	14.5
Real Estate and Rental and Leasing	14.6	8.3	27.2	16.1	12.7
Administrative & Support, Waste Management & Remediation Services	nd	nd	nd	15.9	11.7
Construction	6.7	7.0	7.3	7.4	6.4
Wholesale Trade	21.6	9.7	16.9	7.1	4.9
Finance and Insurance	0.6	3.6	10.5	7.1	4.5
Accommodation and Food Services	11.4	7.1	11.0	3.5	3.8
Professional, Scientific & Technical Services	0.2	0.5	1.8	4.8	2.1
Management of Companies & Enterprises	nd	nd	nd	nd	0.0
Mining and Oil and Gas Extraction	nd	nd	nd	73.1	nd
Arts, Entertainment and Recreation	nd	nd	nd	0.5	nd
Utilities	nd	nd	nd	nd	nd
Total Construction[2]	1,504.6	1,591.3	1,711.5	1,608.4	1,746.0
Machinery and Equipment Investment					
Manufacturing	214.7	305.1	364.8	314.2	417.4
Information and Cultural Industries	109.3	92.2	161.3	140.4	136.4
Finance and Insurance	61.4	67.7	40.5	108.2	125.8
Retail Trade	39.6	51.6	51.2	87.5	104.7
Transportation and Warehousing	76.2	89.6	81.7	53.1	63.5
Construction	47.5	61.6	61.9	66.8	59.2
Public Administration	95.9	52.1	43.9	52.6	49.4
Professional, Scientific & Technical Services	4.6	9.5	16.1	36.5	39.4
Wholesale Trade	55.5	51.5	34.8	38.9	38.0
Agriculture, Forestry, Fishing and Hunting	35.3	41.1	47.8	45.0	32.5
Health Care and Social Assistance	18.1	24.2	27.9	23.8	24.8
Other Services	2.9	12.3	9.4	14.9	14.6
Educational Services	17.5	15.0	16.3	13.2	11.9
Administrative & Support, Waste Management & Remediation Services	nd	nd	nd	9.0	7.4
Accommodation and Food Services	20.2	17.5	8.9	7.6	4.0
Real Estate and Rental and Leasing	3.6	1.2	2.1	6.5	3.3
Management of Companies & Enterprises	nd	nd	nd	nd	0.2
Mining and Oil and Gas Extraction	nd	nd	nd	31.5	nd
Arts, Entertainment and Recreation	nd	nd	nd	nd	nd
Utilities	nd	nd	nd	nd	nd
Total Machinery and Equipment[2]	894.0	971.9	1,021.8	1,066.7	1,187.5
Total New Investment	$2,398.6	$2,563.2	$2,733.3	$2,675.1	$2,933.6
Total New Investment (Canada)	$132,967.9	$132,677.3	$135,537.1	$161,725.5	$163,092.8

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[1] Preliminary actual.

[2] Total investments include amounts which are not separately disclosed by Statistics Canada.

nd: not disclosed

Source: Statistics Canada.

Thus far, major investments in the 1990s have included projects in the power generation, real estate, food processing, electronic products, communications, transportation, health, recreation, education and forestry-related industries.

Projects under the Canada/New Brunswick Infrastructure Program (which receive equal funding from Federal, Provincial and Municipal Governments) are underway with $153 million to be jointly invested from 1994 through 1999. Over the past several years, NB Tel Inc. (NBTel) and Fundy Communications Inc. ("Fundy"), which was recently purchased by Shaw Communications Inc., have made significant investments in the Province's telecommunications system. By upgrading its network, NBTel has offered new services to its customers, such as high speed Internet and multimedia applications, virtual private network, paging, and digital cellular services. Starting in 1996, Fundy undertook an investment of $80 million over three years to develop a province-wide fibre-optic network, enabling the company to offer long distance telephone, digital television, and paging services, as well as other telecommunication services to businesses.

During the 1990s, a significant amount of funds have been directed at the New Brunswick highway system. During 1998, it was announced that The Canada-New Brunswick Highway Improvement Agreement would be extended. The three-year agreement, which began in April 1998, is worth approximately $300 million and will be on a 50-50 cost-shared basis between the Province and the Federal Government. In January 1998, the Province also entered into a public-private partnership to build a four lane highway between Fredericton and Moncton which is expected to be completed by 2001. Total capital costs of the project are approximately $860 million.

In October 1997, the National Energy Board approved the Sable Offshore Energy Project which is expected to have natural gas flowing from Sable Island, Nova Scotia through a pipeline constructed by Maritimes and Northeast Pipeline to New Brunswick and New England markets by December 1999. On December 22, 1998, the Province released a "*Request for Proposals to Develop, Design, Construct, Finance, Operate, Manage and Maintain a Privately Owned Natural Gas Distribution Utility*". Two companies submitted proposals and on September 7, 1999 the Province announced the awarding of the province-wide distribution franchise to Enbridge Gas New Brunswick.

Maritimes and Northeast Pipeline has filed the first of their proposed New Brunswick lateral applications with the National Energy Board (NEB). The construction of the Saint John lateral was approved in a decision released November 22, 1999. The hearing for a lateral to the northeast of the province is likely to take place some time in 2000.

Natural gas will be introduced as an 'unbundled' service in New Brunswick, whereby gas transportation and marketing are considered to be separate functions. Natural gas marketers will be required to apply to the Public Utilities Board for a gas marketing certificate. In preparation, the Public Utilities Board held a pre-hearing conference on October 20, 1999 to consider rules regarding the conduct of natural gas marketers in the province. A committee of interested parties are developing a list of issues for a further generic hearing which has been scheduled for January 2000.

In December 1998, Irving Oil Limited announced a $1 billion upgrade of their Saint John refinery to produce more high-end fuels. The project is expected to be completed by 2001 and generate a 15% to 20% increase in cargo ship traffic in Saint John.

Foreign Exports of Commodities

Foreign exports of commodities are important to the Province as well as to Canada as a whole. During the 1994 to 1998 period, the value of foreign exports was equivalent to 27.0% of Real GDP for New Brunswick and 30.6% of Real GDP for Canada. New Brunswick's foreign exports of commodities, estimated at $5,454.7 million in 1998, increased at a compound annual growth rate of 6.6% over the 1994 to 1998 period.

Due to the significance of commodity exports, the economy of the Province is closely related to international economic conditions, particularly in the U.S. In 1998, the U.S. purchased an aggregate of 80.9% of the Province's commodity foreign exports. Paper products accounted for 20.6% of all commodity exports that year, followed by refined petroleum products (18.1% of total) and lumber (11.3% of total). Other important commodity exports are woodpulp, fish products, fertilizers, metallic ores, vegetable preparations and electrical energy.

The table below shows foreign exports of commodities by New Brunswick for the years 1994 to 1998. The largest component, forest products, increased at a compound annual growth rate of 9.9% from 1994 to 1998. Exports of energy products (largely petroleum products to the U.S.) decreased at a compound annual growth rate of 0.2%, and this result is mainly due to the decline of world oil prices over the last two years. Increasing at a compound annual growth rate of 5.2%, exports of agricultural and fishing products have reported strong increases in recent years to diverse markets such as the U.S., Japan and Europe. Industrial goods exports, composed of such products as metallic ores, chemicals and fertilizers, have also been affected by the decline of world commodity prices, increasing at a compound annual growth rate of 0.9%. Machinery and equipment exports grew strongly over the period at 19.5% compound annual growth while the remainder of foreign exports (or "other" category), consisting largely of automotive products and consumer goods, increased at a compound annual growth rate of 39.8%.

FOREIGN EXPORTS OF COMMODITIES

	Year Ended December 31,					Compound Annual Growth Rate
	1994	1995	1996	1997	1998	1994-98
			(millions of dollars)			
Forest Products	$1,643.9	$2,309.9	$1,958.3	$2,078.3	$2,395.2	9.9%
Energy Products	1,223.9	1,463.7	1,718.4	1,651.2	1,214.6	(0.2)
Agriculture and Fishing Products	761.7	879.3	897.0	929.6	933.9	5.2
Industrial Goods	411.3	538.6	530.5	492.0	426.6	0.9
Machinery and Equipment	124.7	157.5	187.9	208.4	254.5	19.5
Other	60.2	69.9	90.9	104.2	229.9	39.8
Total	$4,225.7	$5,418.9	$5,383.0	$5,463.7	$5,454.7	6.6

Source: Statistics Canada.

Structure of the Economy

The economy of the Province is based largely on natural resources, especially forestry and forestry-related industries. The Provincial economy shows a larger concentration of service industries than goods producing industries compared to Canada as a whole. During the 1994 to 1998 period, GDP at factor cost in the service industries accounted for approximately 71% of total GDP compared to 67% for Canada. The following table shows GDP at factor cost by industry in the Province for the years 1994 to 1998, valued in 1992 constant dollars.

GROSS DOMESTIC PRODUCT AT FACTOR COST BY INDUSTRY

	Year Ended December 31,					Compound Annual Real Growth Rate
	1994	1995	1996	1997	1998	1994-98
			(millions of 1992 dollars)			
Goods Producing Industries						
Manufacturing[1]	$1,520.2	$1,658.2	$1,611.5	$1,658.8	$1,716.3	3.1%
Construction	723.7	769.4	801.9	739.8	704.4	(0.7)
Other Utility Industries	537.3	433.8	521.5	545.6	572.7	1.6
Forestry	228.7	263.6	262.8	261.5	262.1	3.5
Mining, Quarrying and Oil Wells	362.9	392.2	371.0	324.0	305.1	(4.2)
Agriculture	135.9	126.0	146.8	153.0	158.6	3.9
Fishing and Trapping	95.4	86.6	98.5	96.7	82.7	(3.5)
Total Goods Producing Industries	3,604.1	3,729.8	3,814.0	3,779.4	3,801.9	1.3
Service Producing Industries						
Transportation and Storage	704.0	776.0	787.4	795.2	775.9	2.5
Communications	450.3	470.9	523.3	546.4	575.4	6.3
Retail Trade	886.8	925.4	955.0	925.6	986.7	2.7
Wholesale Trade	572.2	568.9	571.5	653.0	767.5	7.6
Finance, Insurance and Real Estate	1,918.6	1,965.8	2,041.0	2,111.9	2,157.0	3.0
Public Administration	1,288.1	1,353.3	1,326.0	1,296.3	1,345.0	1.1
Educational Services	835.8	795.1	810.5	826.8	818.5	(0.5)
Health and Social Services	1,061.9	1,041.1	1,044.5	1,074.9	1,119.8	1.3
Accommodation, Food and Beverages	331.4	346.7	358.1	361.5	366.9	2.6
Business Services	336.7	393.6	415.7	467.6	504.6	10.6
Other Services	439.0	456.9	478.2	481.9	481.1	2.3
Total Service Producing Industries	8,824.8	9,093.7	9,311.3	9,541.2	9,898.4	2.9
Total Real Domestic Product (at factor cost)	$12,428.9	$12,823.4	$13,125.3	$13,320.6	$13,700.3	2.5
Business Sector Industries	$9,209.7	$9,565.6	$9,871.8	$10,078.8	$10,397.1	3.1
Non-Business Sector Industries	$3,219.2	$3,257.8	$3,253.5	$3,241.8	$3,303.2	0.7

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[1] Includes natural resources processing: output of forestry-related products accounted for approximately 33.0% of manufacturing GDP at factor cost during the years 1994 through 1998.

Source: Statistics Canada

Primary Industries

Mining. The New Brunswick mining sector has benefited from the development of base metal deposits (zinc, lead, copper and silver ores), potash and peat with increases in employment both directly and through the development and operation of related smelting and land and water transportation facilities.

With world commodity prices for most minerals dropping significantly in 1998, the total value of mineral production in New Brunswick (including downstream manufacturing) decreased 10.6% to $852.2 million. Base metals, which accounted for 70.7% of the total value of the Province's mineral production, decreased 8.4%, while non-metallics (21.9% of total production) fell 22.0%, largely due to the closure of a potash mine in late 1997. Among the metals, zinc continued to be the largest commodity (just over one-half of total production value).

Production at Noranda Inc.'s Brunswick Mining Division ("Brunswick Mining") base metal mine has declined in recent years due to the depletion of resources and depth of the mine workings. At Noranda Inc.'s Heath Steele mine, 260 people were put out of work in November 1999 due to depleted ore stocks. Noranda Inc. continued with its efforts to locate additional mineral deposits in the Province in 1999. As zinc prices have improved over the course of the year, Brunswick Mining increased production 10.0% in the third quarter of 1999 compared to the same period in 1998, the mine's best performance since the second quarter of 1996. Brunswick Mining recalled 60 employees in the summer of 1999 to work in the mine and also hired 40 employees from Noranda's recently closed Heath Steele mine. Breakwater Resources Ltd., which invested $54 million in putting the Caribou and Restigouche mines near Bathurst into production in 1997, was forced to cease production at these facilities in mid-1998 as world prices for zinc fell below profitable levels.

Among the non-metals, water seepage into the Potash Company of Canada Ltd. ("Potacan") mine caused its closure in October 1997, resulting in the loss of 550 jobs. The Potash Corporation of Saskatchewan ("PCS") purchased the Potacan mine in order to use its processing facilities for some of PCS's potash production. In the oil and gas sector, test wells have been drilled in the southwestern part of the province by several companies looking at bituminous shale, with encouraging initial results.

The provincial government extended the New Brunswick Exploration Assistance program to help the junior mining sector in the identification of mineral potential in several sites across the province. In 1998, twelve companies with a combined exploration budget of $2.5 million received assistance for activities.

The following table sets forth the total selling value of mineral production in the Province (including the value of concentrating and smelting) for the years 1994 through 1998.

MINERAL PRODUCTION

	Year Ended December 31,				
	1994	1995	1996	1997	1998
			(millions of dollars)		
Base Metals	$543.4	$670.7	$586.3	$657.5	$602.5
Structural Materials	37.9	44.5	42.7	38.4	40.1
Fuels, including Coal	28.5	24.4	24.0	18.2	23.1
Non-Metallic Minerals	252.2	281.1	301.6	238.9	186.5
Total	$862.0	$1,020.7	$954.7	$953.1	$852.2

Source: Statistics Canada.

Forestry. Approximately 85% of the land area of the Province is forested and roughly one-half of the forested land is owned by the Province as Crown land. Nearly all Crown land is subject to timber licenses and the Province received $53.4 million from Crown land stumpage for the fiscal year ended March 31, 1999.

The following table sets forth the most recently published estimates of forest production in the Province for the years 1992 through 1996.

FOREST PRODUCTION

	Year Ended December 31,				
	1992	1993	1994	1995	1996
	(thousands of cubic metres)				
Pulpwood	4,550	3,596	3,389	3,933	3,948
Logs	4,545	5,209	5,826	6,070	6,878
Other	109	154	54	52	33
Total	9,205	8,959	9,269	10,055	10,859

Source: Statistics Canada.

Information regarding the Province's pulp and paper and wood manufacturing industries is set forth below under "Manufacturing". Pulpwood production from year to year is affected by, among other things, weather conditions for harvesting and bears a fluctuating relationship to shipments by the pulp and paper industry.

Harvesting of the Province's wood resources is approximately in balance with current growth on a sustainable-yield basis. The Province's inventory of wood volume is estimated at 578 million cubic metres, over 60% of which is softwood.

Agriculture. The 1996 census indicated that the Province had 3,206 farms (excluding Christmas tree only farms) and 383,770 acres of land in crops, summerfallow and pasture. The comparable figures from the 1991 census were 3,252 farms and 367,808 acres. Farm cash receipts increased 7.5% during 1998 to an estimated $336.6 million. The largest crop, potatoes, reported a 29.3% rise in the value of production to reach the record level of $82.4 million.

Fishing. Lobster, crab, scallops, shrimp and herring have been the species most important to the primary fishing industry, accounting for approximately 90% of the value of landings in 1997. New methods of processing and marketing frozen and pre-cooked fish and shellfish have expanded market opportunities and increased the competitiveness of the industry. The 1993 to 1997 average annual value of fish landings was approximately $159 million, while shipments of processed fish products averaged slightly over $496 million during that same period. The aquaculture industry generated sales of $115 million in 1998 with 70 active salmon sites in the Bay of Fundy employing between 500 and 600 people. Several complementary industries such as the manufacturing of fish feed and metal cages, hatchery facilities and processing plants support the aquaculture industry.

Secondary Industries

Manufacturing. Manufacturing activities in New Brunswick employed approximately 40,800 people in 1998 and provided $1,274.5 million in wages and salaries compared to $1,186.1 million in 1997.

In 1998, the value of manufacturing shipments fell by 4.4% to $8,079.2 million as low world commodity prices affected the nominal value of shipments. The furniture and fixtures industry posted the strongest gain in 1998 (18.2%), followed by plastics (10.7%), clothing (8.8%), printing, publishing and allied products (8.3%), wood products (8.3%), and paper and allied products (7.9%). Increases also occurred in fabricated metal products (3.6%) and non-metallic mineral products (1.7%). Machinery, chemical, beverage, and food industries decreased 7.2%, 2.3%, 1.7% and 1.2%, respectively, while the miscellaneous group, accounting for 27.4% of total shipments in 1998, posted a 21.7% decrease.

New Brunswick's forest-related industries posted another solid year of growth in 1998 despite weak prices which affected both the wood products and paper and allied products industries. The fall of the Canadian dollar and the continued strength of the U.S. economy helped New Brunswick forestry companies survive difficult market conditions as most of the Province's forestry products are sold in the American market. Major projects announced or undertaken in 1998 included a $7.3 million expansion by West-Wood Industries of Scoudouc enabling the company to produce value-added wood products, and a $30 million expansion by Flakeboard Company Ltd. of St. Stephen, doubling production of the company's high density fibreboard product. Low pulp and paper prices resulted in a few mills taking some downtime during the year, and also led to the permanent closure of Smurfit-Stone Container Corp.'s Bathurst bleached chemical thermal mechanical pulp (BCTMP) plant at the end of 1998, leaving 35 people out of work. The AV Cell Inc. pulp mill in Atholville started production in May 1998, employing 240 people. The mill, closed for two years before being purchased earlier in the year by Tembec Inc. and the Birla Group, an Asian fiber and chemical conglomerate, produces dissolving pulp for the manufacturing of textile rayon.

The year 1998 was marked by several openings and expansions in the textile, food, plastics, furniture and fabricated metal products industries, further contributing to the diversification of the Province's manufacturing base. The largest investment project announced in 1998, both in terms of size and impact, was Irving Oil Limited's $1 billion expansion at its Saint John refinery, with 2,500 people expected to be employed during the peak construction period. The manufacturing sector continues to benefit from the implementation of the Harmonized Sales Tax, improving the competitiveness of the Province's manufacturers in both domestic and foreign markets.

In the transportation industry, Saint John Shipbuilding Limited started work on construction of two container ships in 1998 with work to be completed in the spring of 2000. Peak employment of about 800 workers is expected on the project.

The table below sets forth the leading industrial groups in the Province's manufacturing sector, according to gross selling value of factory shipments, for the years 1994 through 1998.

GROSS SELLING VALUE OF FACTORY SHIPMENTS

Industry	Year Ended December 31, 1994	1995	1996	1997	1998	Compound Annual Growth Rate 1994-98
			(millions of dollars)			
Paper and Allied	$1,605.5	$2,504.5	$1,924.1	$1,879.9	$2,028.6	6.0%
Food Processing	1,389.9	1,518.5	1,508.5	1,628.1	1,608.8	3.7
Wood	767.6	751.3	896.1	1,055.5	1,143.6	10.5
Beverage	178.9	188.4	221.3	192.0	188.7	1.3
Fabricated Metal	152.7	203.2	214.8	189.4	196.2	6.5
Printing, Publishing and Allied	111.7	127.1	122.4	124.1	134.3	4.7
Non-Metallic Minerals	112.9	132.3	161.4	177.5	180.5	12.5
Machinery	68.9	87.5	86.7	97.0	90.0	6.9
Chemical and Chemical Products	99.7	127.1	127.3	105.7	103.2	0.9
Plastic Products	65.4	68.9	83.0	114.9	127.2	18.1
Furniture and Fixtures	29.6	30.1	27.7	32.5	38.4	6.7
Clothing	16.8	19.8	20.5	21.2	23.1	8.3
Miscellaneous[1]	2,444.9	2,558.5	2,971.5	2,829.7	2,216.6	(2.4)
Total	$7,044.5	$8,317.2	$8,365.3	$8,447.5	$8,079.2	3.5

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[1] The principal components of "Miscellaneous" are petroleum products, shipbuilding, lead smelting and electrical and electronics commodities.

Source: Statistics Canada.

Construction. The construction industry is the second largest of the goods-producing industries in terms of contribution to GDP. In 1998, spending on construction activity in the Province increased 9.7% to $2,933.6 million, compared to an increase of 0.8% for Canada. The commencement of major projects in the road transportation and natural gas distribution sectors led to a marked increase in activity. Residential construction, the largest component, accounted for 20.6% of capital investment in 1998. Spending by manufacturing industries ranked second, and was estimated to account for 15.7% of capital spending. According to preliminary estimates, construction activity in the Province in 1999 is expected to increase 22.2%, with continued impetus from road transportation and natural gas distribution.

Service Industries

Trade. Retail trade amounted to $5,957.8 million in 1998, an increase of 6.1% from 1997, compared to the national rate of increase of 3.6%. Between 1994 and 1998, New Brunswick's compound annual growth rate for retail trade was 4.6%. On a per capita basis, the value of retail sales was $7,912.6 for New Brunswick and $8,123.8 for Canada as a whole.

Transportation. New Brunswick has an extensive infrastructure of road, rail, water and air transportation services. In addition, the Province has an area air traffic control centre that monitors flights into and out of airports in Atlantic Canada and Labrador, plus all traffic traversing the North Atlantic. The Moncton airport completed a terminal refurbishment and runway expansion in 1999 at a cost of more than $10 million. A major ice-free port at Saint John provides service to about 20 shipping lines. The port handled cargo totaling 19.5 million metric tonnes in 1998. Cruise ships making regular calls to Saint John were up 60% in 1998, with the total number of passengers increasing 30%. Other developments at the port included reduced service charges; a new facility to handle distribution of automobiles; a modified wharf to provide simultaneous loading of containers and ro-ro (roll on roll off) cargo; and an intermodal service to improve rail service with Central Canada.

Communications. A number of international companies continue to establish or expand operations in telemarketing, customer service and other communications services. As of June 1999, there were 65 centres employing approximately 8,000 people. Recent announcements and employment projections suggest an additional 2,000 jobs will be created in this sector over the next several years. In May 1999, owners of the major information technology and provincial telecommunications companies in Atlantic Canada merged to form Aliant Inc. NBTel, a principal subsidiary of Aliant, will expand the *VideoActive*^{TM} network to other communities in the Province at a projected cost of $4.5 million. This high-tech network will enable extreme-speed Internet and multimedia applications. Other new advanced customer services include: Internet VPN (virtual private network service), *Flex*^{TM} paging ($2 million investment in wireless infrastructure) and a PCS (personal communication system) digital cellular service. In 1998 and 1999, NBTel formed alliances with companies in the U.S. and New England to develop electronic service delivery applications for government. Fundy continued its efforts in long distance telephone services for commercial and residential consumers, the development of a new digital television service, the first of its kind in Atlantic Canada, and a suite of powerful new communications tools for businesses. Fundy also announced the formation of C1 Communications Inc. to service commercial customers and the sale of its cable television business to Shaw Communications Inc. which occurred on October 29, 1999.

Tourism. In recent years, tourism has made a significant contribution to the economy of the Province. Revenues reached an all-time high of $850 million in 1998, a 7.6% increase over the previous year with visitations rising 7.9% to over 1.4 million. There were gains from all Canadian regions as well as the U.S. Efforts to influence visitors to stay longer in New Brunswick are paying off due to the success of the Intercept Marketing Program, the first of its kind in Canada. The program includes 39 booking locations, television advertisements and Day Adventures catalogues. Estimates for the 1999 tourist season indicate that revenues reached $920 million, an increase of 8% over last year's level.

Labour Force

New Brunswick's labour force reached 368,900 in 1998, an increase of 1.8% over 1997. Growth of 4.0% in the last quarter of 1998 pushed employment in the Province up by 8,100 (or 2.6%) to 324,200. This was the largest incremental increase since 1988. Nationally, the number of employed persons increased 2.8% in 1998. The number of unemployed persons in the Province dropped by 1,700 to 44,700 in 1998, the result of faster growth in employment than in the labour force. The unemployment rate in New Brunswick fell from 12.8% in 1997 to 12.1% in 1998. In 1999, New Brunswick's unemployment rate has continued its downward trend, averaging 10.1% over the first eleven months of the year. Canada's unemployment rate was 8.3% in 1998, the lowest rate in eight years.

The following table sets forth certain information concerning the Province's labour market.

LABOUR FORCE

	Average for Year Ended December 31,				
	1994	1995	1996 (thousands)	1997	1998
Population 15 years and over	593.6	597.8	600.2	603.1	605.6
Labour Force	350.9	354.3	354.1	362.4	368.9
Labour Force Employed	307.3	313.6	312.8	316.1	324.2
Labour Force Unemployed	43.7	40.7	41.3	46.4	44.7
Unemployment Rate					
New Brunswick	12.5%	11.5%	11.7%	12.8%	12.1%
Canada	10.4	9.5	9.7	9.2	8.3
Participation Rate					
New Brunswick	59.1	59.3	59.0	60.1	60.9
Canada	65.3	64.8	64.9	64.8	65.1

Source: Statistics Canada.

From 1994 to 1998, the number of persons employed in New Brunswick increased 5.5%. Gains of more than ten percent were realized in 1998 in the accommodation and food services sector (18.6%), the information, culture and recreation sector (15.5%) and the management, administrative and other support sector (11.7%).

The following table indicates employment by industry in the Province for the years 1994 through 1998.

EMPLOYMENT BY INDUSTRY

	Average for Year Ended December 31,				
	1994	1995	1996 (thousands)	1997	1998
Goods-Producing Sector					
Agriculture	5.9	6.3	6.6	6.7	6.3
Forestry, Fishing, Mining, Oil and Gas	13.5	12.6	12.6	13.0	13.0
Manufacturing	32.1	38.5	36.8	37.7	39.2
Utilities	3.8	4.2	3.2	3.8	3.5
Construction	18.9	18.3	19.8	19.4	20.6
Service-Producing Sector					
Trade	52.1	52.7	53.9	52.6	52.5
Transportation and Warehousing	17.3	16.7	17.0	18.8	17.1
Professional, Scientific and Technical Services	8.5	9.6	10.5	10.5	11.0
Management, Administrative and Other Support	7.8	7.6	8.6	9.4	10.5
Educational Services	22.9	22.7	22.0	21.9	21.4
Health Care and Social Assistance	36.3	39.6	37.3	38.1	41.4
Information, Culture and Recreation	11.4	10.4	10.8	10.3	11.9
Accommodation and Food Services	19.2	20.7	19.8	18.3	21.7
Other Services	17.9	17.6	17.9	18.2	17.6
Finance, Insurance, Real Estate and Leasing	14.5	13.8	13.8	14.2	14.3
Public Administration	25.4	22.3	22.2	23.3	22.3
Total	307.3	313.6	312.8	316.1	324.2

Source: Statistics Canada.

Economic Development

Economic growth is assisted by the Federal Government's Atlantic Canada Opportunities Agency ("ACOA") which was launched in June 1987 with a mandate to stimulate economic development in the Atlantic Provinces. Economic growth is also supported by a Federal-Provincial Regional Economic Development Agreement (REDA) signed in 1996. The agreement is multi-sectoral with the flexibility to respond to different initiatives which seek to expand the economy or to invest in people and skills in New Brunswick. The agreement consolidates the five remaining cooperation agreements valued at $223.6 million (Economic Development $59.1 million, Economic Diversification $83.3 million, Entrepreneurship and Human Resource Development $25.8 million, Urban Economic Development $50.3 million and Planning $5.0 million). Funding in the amount of $53.7 million has been added for three programs: Economic Development, Strategic Opportunities and Planning. The cost sharing of the new agreement is 70% Federal and 30% Provincial. An amendment to the REDA was signed on August 12, 1999 adding $49.4 million to the Agreement and extending its life to March 31, 2003.

REVENUE AND EXPENDITURE OF THE PROVINCE

General Information

Under the Constitution Acts, 1867 and 1982 provincial legislatures are given certain exclusive powers, including the power to impose direct taxation within the provinces to raise revenue for provincial purposes, and the power to borrow money on the sole credit of the provinces.

The *Financial Administration Act* governs the receipt of public money, the disbursement of public funds, the control of expenditures and the keeping and auditing of public accounts of the Province. All public monies are to be deposited to the credit of the Province and constitute the Consolidated Fund of the Province. Monies necessary for the carrying out of the operations of the Provincial Government for each fiscal year are voted by the Legislative Assembly, with the exception of those expenditures for which provision has already been made through existing legislative authority. In addition, under the authority of the *Financial Administration Act*, should the occasion arise when the Legislative Assembly is not in session, the Lieutenant-Governor in Council may order the issue of a special warrant authorizing payment out of the Consolidated Fund for an expenditure required urgently for the public good which was not provided for by the Legislative Assembly. Amounts appropriated under special warrant must be approved at the next session of the Legislative Assembly.

In accordance with the *Financial Administration Act* and certain other Acts, funds received for a special purpose are to be disbursed for that purpose. Unlike regular appropriations, any unspent balance of these funds may be carried forward to subsequent fiscal years. At March 31, 1999, the balance of unspent special purpose funds was $42.4 million.

During the fiscal year ended March 31, 1994, the Province established a Special Operating Agency in accordance with the Regional Development Corporation Act to account for the new infrastructure program. The Agency now also assists in administering the Rural Experience program and in administering several other grant programs of the Province. The Special Operating Agency derives its revenue from grants from Provincial departments and from contributions from the Federal Government. During the fiscal year ended March 31, 1996, the Province established two additional Special Operating Agencies, Vehicle Management and New Brunswick Integrated Justice. The Vehicle Management Special Operating Agency exists to maintain the Provincial fleet of vehicles and heavy equipment while the New Brunswick Integrated Justice Special Operating Agency became inactive on April 1, 1998. During the fiscal year ended March 31, 1997, the New Brunswick Community College Special Operating Agency was established to financially administer the Province's community colleges. In addition, during the fiscal year ended March 31, 1998, the New Brunswick Safety Code Services Special Operating Agency was established for the enforcement of safety regulations affecting electrical, plumbing, elevating, boiler and pressure vessels, and natural gas installations. Unlike regular appropriations, any unspent balance of these funds may be carried forward to subsequent fiscal years. At March 31, 1999, the balance of unspent special operating funds, was $16.6 million. All transactions between the Special Operating Agencies and Provincial departments are eliminated from the Province's combined statement of revenue and expenditure.

All public accounts are subject to review by the Auditor General, an official responsible under the provisions of the *Auditor General Act* for the examination of the accounts of the Province and for reporting thereon annually to the Legislative Assembly.

After the June 1999 provincial election, the accounting firm of Grant Thornton was engaged to conduct a financial review of certain aspects of the Province's financial affairs in accordance with specific terms of reference as provided by the Province. The report on these specific terms of reference are included as Exhibit(i). The results of the report were made public on November 18, 1999 and were used to establish the Province's final financial position for the fiscal year ended March 31, 1999 and to help forecast the Province's revenues and expenditures for the fiscal year ending March 31, 2000. All of the accounting recommendations in the report are reflected in the information contained herein. The main recommendations are as follows: accept the 1998 $450 million write-down of capital assets for NB Power; consolidate regional hospital corporation deficits onto the Province's financial statements; take on more adequate loss provision for government loans in certain departments as well as for property tax receivables; and account correctly for harmonization transitional payments (See "Harmonized Sales Tax"). After the adoption of these recommendations the Province recorded a budgetary deficit of $164.3 million for the fiscal year ended March 31, 1999 instead of the surplus which had been forecast.

At the commencement of each fiscal year, the Minister of Finance delivers a budget and the Estimates of Revenue and Expenditure (the "Budget Estimates") to the Legislative Assembly. As part of the Province's financial reporting system, the Minister of Finance reports on the status of the budget plan during the year. The Budget Estimates include the revenue and expenses of some Provincially-created Boards, Commissions and Crown corporations, or the net profits of such entities, or the Provincial contribution towards the operations of such entities, as well as funds advanced through such entities to various individuals and enterprises in the form of repayable loans and investments.

During the fiscal year ended March 31, 1995, the Province adopted the recommendations of the Public Sector Accounting and Auditing Board of the Canadian Institute of Chartered Accountants ("CICA") with respect to the definition of the Reporting Entity. The Provincial Reporting Entity is comprised of certain organizations that are accountable to the Provincial Legislature. Transactions and balances of these organizations are included in the Province's financial statements through different accounting methods. The result is that the net profits of New Brunswick Power Corporation, the Workplace Health, Safety and Compensation Commission and the New Brunswick Municipal Finance Corporation are included in the Province's ordinary account revenue.

In May 1993, *An Act Respecting the Balancing of the Ordinary Expenditures and Ordinary Revenues of the Province* was enacted. The Act, which was amended in April 1995 and renamed the *Balanced Budget Act*, states that "It is the objective of the Government of New Brunswick that (a) in respect of the first fiscal period, the total amount of the ordinary expenditures for that fiscal period not exceed the total amount of the ordinary revenues for that fiscal period, and (b) in respect of each subsequent fiscal period, the total amount of the expenditures for that fiscal period not exceed the total amount of the revenues for that fiscal period". The first fiscal period under the Act was the three fiscal years ended on March 31, 1996. Subsequent fiscal periods will consist of four consecutive fiscal years with the first such period ending on March 31, 2000. To date, the Province has met all provisions of the Act.

Changes in Cash Flow

The following table sets forth the changes in cash flow of the Province for the four fiscal years ended March 31, 1999 and the Budget Estimates for the fiscal year ending March 31, 2000.

COMPARATIVE STATEMENT OF CASH FLOW

	Year Ended March 31,				
	1996	1997	1998	1999	Budget Estimates 2000[1]
			(millions of dollars)		
Operating Transactions					
Surplus (Deficit)[2]	$ 40.6	$ 66.0	$ 34.8	$(164.3)	$ 12.3
Non-Cash Items					
Amortization of Premiums, Discounts and Issue Expenses	7.5	7.0	8.4	6.7	7.5
Foreign Exchange Expense	19.9	11.2	19.7	47.0	—
Increase in Allowance for Doubtful Accounts	28.1	36.0	43.7	87.0	25.6
Sinking Fund Earnings	(186.1)	(181.2)	(200.2)	(226.5)	(203.0)
Actual Losses Due to Foreign Exchange	(9.4)	(10.8)	(24.8)	(22.6)	
Decrease in Pension Liability	(104.2)	(134.6)	(189.1)	(290.0)	—
Increase in Deferred Revenue	18.7	374.0	(20.9)	(245.7)	
Capital Asset Acquisition Charged to Operations	277.5	246.0	232.0	286.2	—
Proceeds from Disposal of Capital Assets	(5.0)	(4.3)	(4.3)	(4.1)	—
Decrease (Increase) in Working Capital	41.2	(24.9)	88.7	60.9	—
Net Cash from Operating Activities	128.8	384.4	(11.9)	(465.4)	(157.6)
Investing Transaction					
Purchase of Capital Assets	(277.5)	(246.0)	(232.0)	(286.2)	—
Proceeds from Disposal of Capital Assets	5.0	4.3	4.3	4.1	—
Increase in Investments, Loans and Advances	(64.8)	(9.6)	(15.9)	413.9	(54.9)
Net Cash used in Investing Activities	(337.3)	(251.3)	(243.6)	131.8	(54.9)
Financing Transactions					
Cash Proceeds of Funded Debt Issued	687.9	525.2	931.5	794.8	—
Received from Sinking Fund for Redemption of Debentures and Payment of Exchange	123.2	53.4	164.5	77.5	—
Capital Lease Financing	—	10.0	19.6	(0.5)	
Sinking Fund Instalments	(97.4)	(95.0)	(99.3)	(104.2)	—
Serial Redemptions and Capital Loan Repayments	(2.5)	(2.0)	(2.2)	(2.4)	—
Funded Debt Matured	(541.5)	(310.1)	(739.5)	(418.3)	—
Net Cash from Financing Activities	169.7	181.5	274.6	346.9	—
Increase (Decrease) in Cash Position during Year	(38.8)	314.6	19.1	13.3	—
Cash Position - Beginning of Year	(589.3)	(628.1)	(313.5)	(294.4)	—
Cash Position - End of Year	$ (628.1)	$ (313.5)	$ (294.4)	$ (281.1)	—
Cash Represented by					
Bank Advances and Short Term Borrowing	$ (628.1)	$ (313.5)	$ (294.4)	$ (281.1)	—

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[1] The Budget Estimates do not include estimates of total borrowing requirements of the Province and New Brunswick Power Corporation. For information with respect to financial requirements of the Province and New Brunswick Power Corporation and with respect to maturing debt of the Province, see "Financing-Financial Requirements", "New Brunswick Power Corporation-Financial Requirements" and "Financing-Funded Debt Maturity Schedule", respectively.

[2] For further information see Table IV in "Tables and Supplementary Information of the Province."

[3] The Budget Estimates do not include estimates of these amounts.

1999 Budget Estimates

For the fiscal year ended March 31, 1999 the Budgetary Deficit was $164.3 million, a change of $182.8 million from Budget Estimates primarily due to increased health care expenditures and the purchase of 156,000 hectares of land from the Georgia-Pacific Group.

Ordinary account revenue was $85.5 million lower than Budget Estimates primarily due to a one time $450 million reduction in the value of the Province's investment in New Brunswick Power Corporation, a decrease in personal income tax revenue of $62.5 million, a decrease in provincial property tax revenue of $26.6 million and a decrease in harmonized sales tax revenue of $40.4 million. This decrease was partially offset by an increase in fiscal equalization payments of $301.7 million and an increase in harmonization transitional payments of $160.2 million.

Ordinary account expenditure was $75.6 million higher than Budget Estimates principally due to additional costs incurred for various health care programs, winter maintenance of highways due to the length and severity of the winter, the establishment of additional allowances for a number of receivables deemed uncollectible, a onetime adjustment due to a change in accounting for concessionary loans and higher Service of the Public Debt costs. The portion related to Service of the Public Debt was $13.4 million and is due to the interest cost relating to capitalizing two long term leases previously treated as operating leases and the change in accounting for concessionary loans. The higher expenditures were partially offset by savings in the two largest pension plans due to the improved overall financial status of the plans.

Capital account expenditure was $72.9 million higher than Budget. The main reason for the difference was the $62.5 million one time purchase of 156,000 hectares of forest land as well as a $5.5 million provision for the Province's commitment to assist with the closure and remediation of local dumps and landfills in the Province.

Sinking fund earnings were $33.9 million higher than Budget Estimates.

Major Sources of Ordinary Account Revenue

The major sources of ordinary account revenue for the Province are income taxes, consumption taxes, property taxes and payments from the Federal Government. For the fiscal year ending March 31, 2000, the Province's revenue is estimated at $4,341.1 million, 6.1% higher than for the fiscal year ended March 31, 1999. The principal factors which are projected to cause the $250.7 million increase are an increase in personal income tax revenue ($75.5 million) and an improvement in New Brunswick Power Corporation's net income ($443.0 million). This increase is projected to be partially offset by decreased Fiscal Equalization Payments ($236.4 million) and decreased harmonization transitional payments ($72.0 million). The following table shows the percentage sources of ordinary account revenue for the four fiscal years ended March 31, 1999 and the Budget Estimates for the fiscal year ending March 31, 2000.

ORDINARY ACCOUNT REVENUE SOURCES

	Year Ended March 31,					Compound Annual Growth Rate
	1996	1997	1998	1999	Budget Estimates 2000	1996-00
Taxes						
Personal Income	19.4%	20.1%	19.9%	19.0%	19.7%	2.1%
Corporate Income	3.2	6.1	6.0	3.7	4.7	11.2
Consumption	23.1	22.8	19.5	19.9	19.7	(2.2)[1]
Property	5.8	6.0	6.1	5.9	6.2	3.4
Miscellaneous	0.6	0.6	0.6	0.6	0.6	3.4
Total Taxes	52.1	55.6	52.1	49.1	50.9	1.1
Other Revenue						
Licenses, Permits and Fees	4.1	4.2	4.0	4.1	3.9	1.1
Federal Government Payments	36.8	34.1	37.8	50.3	39.5	3.6
Other Agencies	5.0	4.0	3.6	(5.8)	3.8	(5.2)
Miscellaneous	1.9	2.1	2.5	2.3	1.9	(0.1)
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	
Total Ordinary Account Revenue (in millions)	$4,052.2	$4,104.7	$4,067.3	$4,090.4	$4,341.1	1.7

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[1] Negative growth reflects a major restructuring of the New Brunswick tax system with the introduction of the Harmonized Sales Tax.

Personal and Corporate Income Taxes. Under the terms of tax collection agreements, the Federal Government administers and collects provincial personal and corporate income taxes for participating provinces, including New Brunswick. In return, participating provinces are required to establish their personal income tax rate as a percentage of the Basic Federal Tax. The personal income tax rate was reduced from 64% to 63% of Basic Federal Tax effective January 1, 1997, from 63% to 61% of Basic Federal Tax effective January 1, 1998 and from 61% to 60% of Basic Federal Tax effective January 1, 1999. Families with dependent children may also receive the New Brunswick Child Tax Benefit and the New Brunswick Working Income Supplement, depending upon their income.

The corporate income tax is established as a percentage of corporate taxable income. The standard corporation income tax rate is 17% of corporate taxable income. The small business corporate income tax rate, which applies to the first $200,000 of active business income for Canadian controlled private corporations, was decreased from 7% to 6% effective January 1, 1999.

Harmonized Sales Tax. On October 18, 1996, the New Brunswick government signed an agreement to harmonize its sales tax with the federal Goods and Services Tax ("GST"). The new tax, officially known as the Harmonized Sales Tax ("HST"), came into effect April 1, 1997. The combined sales tax rate dropped from an effective rate of 18.77% to 15%. The new rate applies to all goods and services which were covered by the GST. This change involved a major restructuring of the New Brunswick sales tax system. Harmonization with the GST reduced the amount of total revenue from the New Brunswick sales tax by approximately $170 million annually, based on 1996-97 Budget Estimates, despite the broadening of the tax base. The Federal Government provided adjustment assistance based on a set formula to ease the transition between the two tax systems. Under this formula New Brunswick received $364 million. This amount together with interest is meant to allow the Province to adjust to the new tax structure over a four year transition period.

Other rebates and credits were introduced in conjunction with the HST. Book purchasers receive a point of sale rebate on the 8% provincial portion of the HST. Matching federal rebates for the provincial portion of the HST are provided for municipalities, charities, non-profit organizations and foreign tourists. New Brunswickers who buy a new home or renovate an existing one can receive a provincial tax credit equal to 4% of the pre-tax contract price, up to a maximum of $1,500. As well, the Province offers research and development assistance for universities.

Under the HST, businesses receive full input tax credits for tax paid on business purchases, which offsets the embedded sales tax in the cost of producing and selling goods and services. In order to recoup a small portion of the tax credits businesses receive, the Province introduced a large corporations capital tax. Effective April 1, 1997 the large corporations capital tax applies to businesses with assets greater than $5 million at a rate of 0.3%. The large corporations capital tax applies to the same definition of capital as the federal Large Corporations Tax but does not apply to federally defined financial institutions formed under the laws of Canada. The tax is deductible for corporate income tax purposes.

Gasoline and Motive Fuels Tax and Tobacco Tax. The current tax rate is 10.7 cents per litre for gasoline and 13.7 cents per litre for diesel fuel. Effective November 6, 1999, the tax on cigarettes increased from 3.85 cents per cigarette to 4.15 cents per cigarette and the tax on tobacco sticks increased from 3.50 cents per tobacco stick to 3.70 cents per tobacco stick.

Property Taxes. The Province levies a real property tax of $1.50 per $100 of assessment for residences not occupied by the owner. Owner-occupied residences in unincorporated areas face a provincial property tax rate of 65 cents per $100 of assessment. Effective for the 1995 property tax year, the low income property tax allowance on eligible owner-occupied residences was enhanced. The income threshold for the $200 allowance was set at $20,000 in taxable family income. The Province also levies a non-residential property tax at the rate of $2.25 per $100 of assessment. In addition to the residential and non-residential property tax rates, the Province applies a cost of assessment levy of 2 cents per $100 of assessment on real property. In addition to the Provincial tax, a municipal tax is imposed to defray the cost of providing services that are not provided by the Province. Municipal taxes are collected by the Province and, in the case of incorporated municipalities, are then remitted back to the municipality. In unincorporated areas the tax is retained, and the services paid for, by the Province.

Federal-Provincial Fiscal Arrangements

Since 1941, the revenue derived from personal and corporate income taxes has been shared between the Federal and provincial governments in accordance with a series of agreements. The scope of these agreements has been extended to include certain Federal grants and guarantees to provincial governments. The present agreement, the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977 (the "Fiscal Arrangements Act"), was most recently amended in 1996 to incorporate changes announced in the 1996 Federal budget.

The equalization program is now set for the period ending March 31, 2004. The Canada Health and Social Transfer ("CHST") formula has been established through March 31, 2004.

Fiscal Equalization Payments. New Brunswick is one of seven provinces to receive fiscal equalization payments from the Federal Government to assist them in providing a basic level of public services. The program is intended to bring the per capita yield of the Province's revenue raising capacity up to the per capita yield for the five provinces used as the standard (British Columbia, Manitoba, Ontario, Québec and Saskatchewan). New Brunswick's equalization payment for the fiscal year ended March 31, 1999 was $1,271.4 million and for the fiscal year ending March 31, 2000 is estimated at $1,035.0 million. Fiscal equalization payments accounted for 31.1% of the total ordinary account revenue for the fiscal year ended March 31, 1999 and for 23.8% of the estimated total ordinary account revenue budgeted for the fiscal year ending March 31, 2000.

Canada Health and Social Transfer. The 1995 Federal Budget announced that effective for the fiscal year ending March 31, 1997, the major social transfers to the provinces, under Canada Assistance Plan ("CAP") and Established Programs Financing ("EPF") would be restructured. CAP and EPF have been replaced by the CHST, a block grant in support of social programs in general, including health, post-secondary education, and social services and assistance. Following the 1999 Federal Budget the total CHST cash block is set to increase to $15 million by 2001-02 and is established through March 31, 2004. The 1999 Federal Budget also created the $3.5 billion CHST Trust Fund for health care. Province's can draw down their share of the trust, as they see fit, over the next three years starting in 1999-2000. The Province's CHST revenue for the fiscal year ended March 31, 1999 was $340.7 million and is estimated at $324.0 million for the fiscal year ending March 31, 2000. CHST payments accounted for 8.3% of the total ordinary account revenue for the fiscal year ended March 31, 1999 and for 7.5% of the estimated total ordinary account revenue budgeted for the fiscal year ending March 31, 2000.

Fiscal Stabilization Program. Under the Fiscal Stabilization Program, the Federal Government may make unconditional payments to a province when total revenues of that province, as per the federal definition, fall short of the previous years total due to a downturn in economic activity. Stabilization payments consist of a cash grant up to a maximum of $60 per capita, with any additional amounts being an interest free loan repayable over five years.

Revenue Guarantee Program. The Revenue Guarantee Program guarantees cash payments to a province if Federal income tax changes result in a 1% or greater decline in that province's personal income tax base.

Major Ordinary Account Expenditure

For the fiscal year ending March 31, 2000, the Province budgeted ordinary account expenditure of $4,283.2 million, 1.6% higher than the actual ordinary expenditure for the fiscal year ended March 31, 1999. The net increase of $68.4 million is principally attributable to an increase in funding for the Department of Education combined with under expenditures in the fiscal year ended March 31, 1999 in the Department of Human Resource Development, Department of Labour and the pension vote. The under expenditures are not forecast to re-occur in the fiscal year ending March 31, 2000.

The following table shows the percentage distribution of ordinary account expenditure for the four fiscal years ended March 31, 1999 and the Budget Estimates for the fiscal year ending March 31, 2000.

ORDINARY ACCOUNT EXPENDITURE DISTRIBUTION

	Year Ended March 31,					Compound Annual Growth Rate
	1996	1997	1998	1999	Budget Estimates 2000	1996-00
Social Services						
Education	22.6%	22.5%	21.0%	19.9%	21.5%	1.2%
Health and Community Services	32.2	33.2	32.5	33.3	32.2	2.3
Income Assistance	7.7	7.7	7.8	7.1	7.2	0.7
Other Social Services	2.5	2.6	2.5	2.5	2.4	1.3
Economic Development	6.8	6.9	8.4	9.9	9.0	9.6
Municipal Affairs	5.3	5.1	4.8	4.8	4.6	(1.4)
Transportation	3.3	3.6	3.5	3.5	3.2	1.2
Central Government	4.4	4.1	5.2	4.4	5.7	9.1
Service of Public Debt	15.2	14.3	14.3	14.6	14.2	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	
Total Expenditure (in millions)	$3,905.1	$3,940.4	$4,003.2	$4,214.8	$4,283.2	2.3

Education. Operating expenses of elementary and secondary schools and operating grants to community colleges are paid by the Province. For the fiscal year ending March 31, 2000, expenditure on education for public schooling and community colleges is estimated at $762.1 million, 17.8% of total budgeted expenditure. The Province also pays operating grants to universities estimated at $160.5 million, 3.7% of total budgeted expenditure, for the fiscal year ending March 31, 2000.

Health and Community Services. The Province pays the operating expenses of approved public hospitals and the cost of hospital services supplied by such hospitals. The Province also operates a comprehensive medical services payment plan (Medicare), which covers the costs of eligible medical services incurred by registered residents. For the fiscal year ending March 31, 2000, expenditure on health services is estimated at $1,374.3 million, 32.2% of total budgeted expenditure.

Income Assistance. The Province provides an income security program which includes payments to social assistance clients, the disabled, and residents of special care homes. Funds are also budgeted for exit-related programs. For the fiscal year ending March 31, 2000, the Province budgeted $309.4 million for Income Assistance, 7.2% of total budgeted expenditure.

Other Social Services. The Other Social Services expenditure of $102.8 million represents 2.4% of total expenditure budgeted for the fiscal year ending March 31, 2000 and is made up of the Department of Justice ($29.7 million); the Department of the Solicitor General ($71.0 million); and a portion of General Government ($2.1 million).

Economic Development. The Economic Development expenditure of $385.5 million represents 9.0% of the total budgeted expenditure for the fiscal year ending March 31, 2000 and is made up of the Departments of: Agriculture and Rural Development ($23.0 million); Economic Development and Tourism ($51.0 million); Environment ($9.8 million); Fisheries and Aquaculture ($10.9 million); Natural Resources and Energy ($76.5 million); the Regional Development Corporation ($56.0 million); Labour ($130.8 million); and a portion of General Government ($27.5 million).

Municipal Affairs. The Province ensures the economic and social viability of local government services through financial support to municipalities and local service districts. In addition, the Province assists individuals and families in the acquisition and/or retention of suitable accommodations within reasonable and affordable cost. The estimate of $195.5 million for the fiscal year ending March 31, 2000 for Municipal Affairs represents 4.6% of the total budgeted expenditure.

Transportation. For the fiscal year ending March 31, 2000, the Province budgeted $137.3 million for the planning, design and maintenance of highways and operation of ferry services. This represents 3.2% of the total budgeted expenditure.

Central Government. The Central Government expenditure of $245.8 million estimated for the fiscal year ending March 31, 2000 represents 5.7% of total budgeted expenditure and is made up of expenditures of: the Department of Finance ($18.3 million); the Department of Supply and Services ($81.5 million); General Government ($122.2 million) and other central agencies ($23.8 million).

Service of the Public Debt. For the fiscal year ending March 31, 2000, the estimate of $610.0 million for servicing the debt of the Province, including interest, foreign exchange, amortization and other debt management expenses, represents 14.2% of the total budgeted expenditure.

Net Capital Expenditures

Expenditures for physical assets are financed primarily by borrowing, and are charged to operations as incurred. The following table shows the percentage distribution of gross capital expenditure for the four fiscal years ended March 31, 1999 and the Budget Estimates for the fiscal year ending March 31, 2000. The table also shows the total amounts of recoveries through cost-sharing agreements.

CAPITAL EXPENDITURE DISTRIBUTION

	Year Ended March 31,					Compound Annual Growth Rate 1996-00
	1996	1997	1998	1999	Budget Estimates 2000	
Highways	63.7%	63.3%	64.6%	54.1%	62.0%	(8.8)%
Bridges	3.5	3.3	4.2	6.0	7.8	12.6
Schools	6.0	6.8	7.4	6.2	13.4	12.2
Hospitals	13.5	11.8	4.2	3.5	2.6	(39.3)
Land Purchase	—	—	—	19.2	—	—
Other Public Buildings	2.3	2.0	3.0	2.2	3.7	3.6
Other	7.5	10.8	16.6	8.8	10.5	0.1
Infrastructure Programs	3.5	2.0	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%	100.0%	
Total Expenditure (in millions)	$398.4	$370.2	$336.9	$325.2	$283.5	(8.2)
Total Recoveries (in millions)	103.1	92.5	80.7	41.9	38.6	(21.8)
Net Capital Expenditures (in millions)	$295.3	$277.7	$256.2	$283.3	$244.9	(4.6)

Capital recoveries for the fiscal year ending March 31, 2000 are estimated at $38.6 million, of which $36.9 million are recoveries from the Federal Government. As of March 31, 1999, the Province and the Federal Government had entered into 27 subagreements under the Regional Economic Development Agreement. These agreements involve expenditures in excess of $1,062.2 million of which the Federal Government will contribute a total of approximately 64.7%.

During the fiscal year ended March 31, 1999, an amendment was made to the Highway Improvement Program providing for expenditures of $300.0 million of which the Federal Government will contribute 50%. As of March 31, 1999 the Province had spent $29.7 million and recovered $14.6 million from the Federal Government.

Special Purpose Account

Special purpose account revenue is all revenue designated for special purpose by donor trust funds or by legislation. For the fiscal year ending March 31, 2000, such revenue is estimated to be $36.9 million and expenditures from the various accounts are estimated to be $36.8 million for a surplus of $0.1 million.

Special Operating Agencies

Revenue may be generated by the Special Operating Agencies or from transfers from other budgetary accounts. Expenditures are incurred by the agencies in delivering the programs they offer and may be of a capital or operating nature. For the fiscal year ending March 31, 2000, revenue is estimated at $145.1 million from the various agencies and expenditures at $149.0 million for a deficit of $3.9 million.

Loans and Advances

The Province has followed a policy of promoting economic development through the provision of financial assistance to industry. Such assistance has been channeled through the Department of Economic Development, Culture and Tourism, the Department of Municipalities and Housing, Provincial Holdings Ltd., the Department of Agriculture and Rural Development and the Department of Fisheries and Aquaculture and may take the form of repayable loans, guarantees of bank loans and bond issues and equity investments. Funds required for repayable loans and advances are appropriated annually by the Legislative Assembly and are included in the Province's annual borrowing requirements. Allowances for doubtful or uncollectible amounts are reviewed annually and the net balances of loans and advances less allowances are reflected in the Province's accounts. See "Tables and Supplementary Information of the Province--Table V" for information concerning loans and advances for the four fiscal years ended March 31, 1999 and the Budget Estimates for the fiscal year ending March 31, 2000.

Economic Development, Culture and Tourism. The *Economic Development Act* authorizes the Minister of Economic Development, Culture and Tourism to provide financial assistance to aid and encourage the establishment or development of industry on such terms and conditions as are specified by the Lieutenant-Governor in Council. Requests for assistance are considered by the New Brunswick Industrial Development Board which submits its recommendation to the Minister. At March 31, 1999, loans and guarantees under the Economic Development Act amounted to approximately $160.5 million. The allowance for doubtful accounts on these loans and guarantees amounted to $51.2 million.

Municipalities and Housing. The Department of Municipalities and Housing carries out the Government's housing policies. Loans are issued pursuant to the *New Brunswick Housing Act*. At March 31, 1999, loans under the *New Brunswick Housing Act* amounted to $20.8 million. The allowance for doubtful accounts on these loans totaled $2.9 million. In accordance with the recommendations of the Canadian Institute of Chartered Accountants, loans that will be repaid through future Provincial appropriations were expensed at the time of issue.

Provincial Holdings Ltd. Provincial Holdings Ltd. (PHL) is a New Brunswick company which the Province uses to invest in the equity of industrial enterprises that are based in the Province. PHL is wholly-owned by the Province, and at March 31, 1999, $22.1 million had been advanced to PHL by the Province. The allowance for doubtful accounts on the loans to PHL totaled approximately $10.2 million.

Agriculture. The Department of Agriculture and Rural Development provides aid to farmers and farm related businesses by way of loans, grants and loan guarantees to increase income and employment in rural areas of the Province. At March 31, 1999, loans and guarantees outstanding were $16.0 million. The allowance for doubtful accounts totaled $5.8 million.

Fisheries and Aquaculture. The Department of Fisheries and Aquaculture provides financial assistance mainly by way of direct loans to fishermen to purchase and operate fishing vessels and equipment. At March 31, 1999, loans and guarantees outstanding amounted to $74.7 million. The allowance for doubtful accounts totaled $61.7 million.

Commitments

Fredericton-Moncton Highway. In January 1998, the Province, through the New Brunswick Highway Corporation (NBHC), a company established by a special act to build highways in the Province, entered into agreements with a private sector consortium and the New Brunswick (F-M) Project Company Inc. (Project Company), a not-for-profit company, to develop, design, build, operate, manage, maintain and rehabilitate a four lane toll highway between Longs Creek and Moncton. Total capital costs of the project including construction financing are estimated to be $863.8 million.

NBHC has or will lease land it owns to Project Company which will own all improvements to these lands, in particular the four lane toll highway, and, in turn, has or will sublease the improvements back to NBHC. NBHC is responsible for making sublease payments to Project Company. Under the agreements entered into with the private sector consortium and Project Company, NBHC will be required to make total lease payments of approximately $1,512.7 million, including principal and interest. This amount will be paid through 49 equal semi-annual payments estimated to be $30.9 million, starting in the fiscal year 2003-2004. However, accrual for the annual lease cost will begin once the highway is completed to the stage of full traffic availability which is anticipated to be November 30, 2001.

Fredericton North High School. On July 22, 1998 the Province entered into a Development Agreement with Diamond Construction (1961) Ltd., to construct and finance the Fredericton North High School in Fredericton.

The facility will be owned, operated and maintained by Diamond Construction (1961) Ltd. The Province executed a Lease and Operations Agreement on September 1, 1999 for a term of twenty-five years commencing on September 1, 1999. The total cost for the Lease and Operations Agreement will be approximately $46.5 million. The Province will have the option, at the end of twenty years, to either purchase the facility at a cost of $14.8 million or to continue to lease for the remaining five years of the Lease term. These amounts have not been included in the future minimum lease payments under operating leases described in Note 16(a) of the Province's financial statements.

FINANCING

Borrowing Requirements

The following table provides information on the Province's ordinary account deficit or surplus and budgetary deficit or surplus for the four fiscal years ended March 31, 1999 and the Budget Estimates for the fiscal year ending March 31, 2000.

BUDGETARY SURPLUS (DEFICIT)

	Year Ended March 31,				
	1996	1997	1998	1999	Budget Estimates 2000
			(millions of dollars)		
Ordinary Account Revenue	$4,052.2	$4,104.7	$4,067.3	$4,090.4	$4,341.1
Ordinary Account Expenditure	3,905.1	3,940.4	4,003.2	4,214.8	4,283.2
Surplus (Deficit) on Ordinary Account	147.1	164.3	64.1	(124.4)	58.0
Capital Account Expenditure	398.4	370.2	336.9	325.2	283.5
Capital Account Recoveries	103.1	92.5	80.7	41.9	38.6
Net Capital Expenditure	295.3	277.7	256.2	283.3	244.9
Special Purpose Account Revenues	25.8	30.2	55.7	47.7	36.9
Special Purpose Account Expenditures	26.2	31.2	35.4	39.0	36.8
Surplus (Deficit) on Special Purpose Account	(0.4)	(0.9)	20.3	8.7	0.1
Special Operating Agency Revenues	162.5	187.5	212.7	184.6	145.1
Special Operating Agency Expenditures	160.0	186.0	207.5	179.3	149.0
Surplus (Deficit) on Special Operating Agency	2.6	1.5	5.2	5.3	(3.9)
Sinking Fund Earnings	186.1	181.2	200.2	226.5	203.0
Adjustments on Consolidation	0.5	(2.4)	1.2	2.9	---
Budgetary Surplus (Deficit)/Decrease (Increase) in Net Debt	$40.6	$66.0	$34.8	$(164.3)	$12.3

Net loans and advances, sinking fund installments and serial redemptions and the difference between the cash contributions made to the pension funds and the amounts expensed according to CICA recommendations are not included since they are non-budgetary items. Borrowing requirements associated with the budget and the aforementioned items for the fiscal year ended March 31, 1999 were $454.1 million and for the fiscal year ending March 31, 2000 are estimated at approximately $580.8 million.

Non-Public Borrowing

The Province has borrowed from two non-public sources, the Canada Pension Plan and the Federal Government.

The Canada Pension Plan (CPP) is a compulsory national pension plan in which all provinces other than Quebec participate. When the Plan generates surpluses, the excess funds are invested in capital markets. In the past, funds were invested in non-marketable securities issued by participating provinces, provincially-guaranteed Crown Corporations and the Federal Government at a rate based on the Federal Government's long-term public market borrowing costs. Changes to CPP legislation in 1998 allow for new funds flowing into the CPP to be invested in domestic and foreign equities and for provincial bonds previously issued to the CPP to be rolled over upon maturity on a one-time basis at a cost equal to the province's market rates. At March 31, 1999, New Brunswick had outstanding borrowings from the CPP of $842.1 million.

Monies borrowed from the Federal Government by way of capital loans have been made available to the Province under programs designed to create employment through construction of capital works projects by the Province and by municipalities. At March 31, 1999, the Province had outstanding borrowings of $1.2 million from the Federal Government under this program.

Public Borrowing

At March 31, 1999, the Province had outstanding borrowings for Provincial purposes from non-Federal sources totaling $6,350.8 million through the issue and sale of debentures and notes, such securities being denominated in Canadian dollars, U.S. dollars, Japanese yen and Swiss francs. Not included in this amount is $3,017.1 million borrowed on behalf of New Brunswick Power Corporation.

Trend and Distribution of Borrowing

The trend and distribution of the amounts and sources of the Province's annual debt financing over the past five fiscal years is shown below:

SOURCES OF FUNDS [1]

		Non-Public Borrowing	
Year Ended March 31,	**Public Borrowing**	**Canada Pension Plan**	**Total Borrowing**
		(millions of dollars)	
1995	$708.1	$0.0	$708.1[2]
1996	698.1	0.0	698.1[3]
1997	530.0	0.0	530.0[4]
1998	950.0	0.0	950.0[5]
1999	800.0	0.0	800.0[6]
	$3,686.2	$0.0	$3,686.2

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[1] Debt securities payable in foreign currencies are expressed as the Canadian dollar equivalent at the time of issue.
[2] In addition, $100.0 million was borrowed on behalf of New Brunswick Power Corporation.
[3] In addition, $326.0 million was borrowed on behalf of New Brunswick Power Corporation.
[4] In addition, $70.0 million was borrowed on behalf of New Brunswick Power Corporation.
[5] No funds were borrowed on behalf of New Brunswick Power Corporation.
[6] No funds were borrowed on behalf of New Brunswick Power Corporation.

Between April 1, 1999 and December 13, 1999, the Province borrowed $639.5 million.

Growth of Funded Debt and Capital Loans

The following tables illustrate the rate of change of the Province's outstanding funded debt and capital loans and present certain ratios relating that growth to economic indicators. The following tables do not include $100.0 million borrowed during the fiscal year 1995, $326.0 million borrowed during the fiscal year 1996 and $70.0 million borrowed during the fiscal year 1997 on behalf of New Brunswick Power Corporation.

The Province is required by legislation to pay annually into a sinking fund the Canadian currency equivalent of not less than 1% of funded debt outstanding to the Receiver General for Canada, not less than 3% of funded debt otherwise outstanding at March 31, 1980 and not less than 1% of all funded debt issued subsequent to March 31, 1980. Sinking fund installments are invested in approved securities, including direct and guaranteed obligations of the Province. Interest earned on such investments is added to the sinking fund, and is reinvested in approved securities. At March 31, 1999 the value of the sinking fund applicable to debt issued for Provincial purposes amounted to $2,693.2 million. For the fiscal year ended March 31, 1999, earnings on investments amounted to $226.5 million.

OUTSTANDING NET FUNDED DEBT AND CAPITAL LOANS

	Gross Funded Debt[1]								
At March 31,	Canadian Dollars	United States Dollars	Japanese Yen	Swiss Francs	Capital Loans	Total[2]	Value of Sinking Funds	Net Funded Debt and Capital Loans	Change Over Previous Year
			(millions of units of currency)						
1995	$4,324.9	US$914.0	¥24,250.0	Sfr230.0	$10.3	$6,288.8	$1,921.8	4,367.0	4.8%
1996	4,395.7	1,024.5	19,150.0	230.0	7.8	6,307.8	2,082.1	4,225.7	(3.2)
1997	4,757.6	949.5	15,500.0	230.0	5.7	6,472.5	2,304.9	4,167.7	(1.4)
1998	4,995.2	949.5	12,000.0	230.0	3.6	6,685.1	2,440.0	4,245.1	1.9
1999	5,395.9	933.5	12,000.0	230.0	1.2	7,194.0	2,693.2	4,500.8	6.0

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[1] Debt securities issued in foreign currencies which have been hedged are reported in the currency into which they have been hedged at the rates of exchange established by such hedges.

[2] Debt securities payable in foreign currencies are expressed as the Canadian dollar equivalent at fiscal year end rates of exchange or, where hedges are in place, at the rates of exchange established by such hedges.

After a review of the sinking fund during the fiscal year ended March 31, 1991, the Province determined that due to the high level of investment earnings and sinking fund management policies the asset value was in excess of the amount required to provide for the orderly retirement of the outstanding debt. Pursuant to section 24 of the *Provincial Loans Act*, the Minister of Finance authorized the cancellation of certain Province of New Brunswick debentures held as investments by the sinking fund effective April 1, 1991. As of April 1, 1991, the cancelled debentures ceased to be a charge upon the Consolidated Fund. The annual debt service savings of approximately $25 million is being paid into the pension funds as part of the Province's plan to eliminate the unfunded pension liability over a twenty-five year period. See "Public Service Superannuation".

COMPARATIVE DEBT STATISTICS[1]

	1995	1996	1997	1998	1999
			(millions of dollars)		
Gross Domestic Product at market prices	$15,261	$16,349	$16,523	$16,806	$17,231
Personal Income	13,915	14,439	14,603	14,809	15,139
Provincial Revenue	4,016	4,052	4,105	4,067	4,090
Net Funded Debt and Capital Loans	4,367	4,226	4,168	4,245	4,501
As % of Gross Domestic Product	28.6%	25.9%	25.2%	25.3%	26.1%
As % of Personal Income	31.4	29.3	28.5	28.7	29.7
As % of Provincial Revenue	108.7	104.3	101.5	104.4	110.0

[1] The figures for Provincial Revenue and Net Funded Debt and Capital Loans are for the fiscal year ended March 31. The figures for GDP and Personal Income are for the calendar year ended December 31 of the previous year.

FUNDED DEBT MATURITY SCHEDULE

For Securities Outstanding at March 31, 1999

Year Ended March 31,	**Denominated in[1]:**				**Total in**
	Canadian Dollars	**United States Dollars**	**Japanese Yen**	**Swiss Francs**	**Canadian Dollars[2]**
		(millions of units of currency)			
2000	$313.8	--	--	--	$313.8
2001	375.8	--	¥1,128.0	Sfr130.0	523.0
2002	325.6	--	1,128.0	--	340.0
2003	323.8	US$137.0	1,128.0	--	545.0
2004	231.0	--	1,128.0	--	245.3
2000-04	1,570.0	137.0	4,512.0	130.0	1,967.1
2005-09	1,962.7	397.5	5,640.0	100.0	2,736.8
2010-14	763.3	200.0	1,848.0	--	1088.6
2015-19	600.0	49.0	--	--	674.0
2020-24	--	150.0	--	--	226.4
2025-29	500.0	--	--	--	500.0
	$5,395.9	US$933.5	¥12,000.0	Sfr230.0	$7,192.9

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[1] Debt securities issued in foreign currencies which have been hedged are reported in the currency into which they have been hedged at the rates of exchange established by such hedges.

[2] Debt securities payable in foreign currencies are expressed as the Canadian dollar equivalent at the fiscal year end rates of exchange or, where hedges are in place, at the rates of exchange established by such hedges.

Between April 1, 1999 and December 13, 1999, the Province borrowed $639.5 million. The preceding table does not include this amount. Also excluded are capital loans of $1.2 million received from the Federal Government under a special agreement with the Province for funding certain capital projects.

Unfunded Debt

Since the Province follows an accrual accounting system, expenditures are allocated to the year in which they were incurred irrespective of the date of payment, resulting in the establishment of accounts payable and accrued liabilities. Such unfunded debt is not secured by debt instruments.

At March 31, 1999, the Province's unfunded debt was as follows:

UNFUNDED DEBT

	At March 31, 1999
	(millions of dollars)
Bank Advances and Short Term Borrowing	$714.1
Trust Deposits	29.5
Accounts Payable	429.4
Accrued Expenditures	653.2
Deferred Revenue	340.7
Total Unfunded Debt	$2,166.9

This unfunded debt is partially offset by assets of the Province in the amount of $1,141.7 million, represented by $433 million of cash and short term investments, $268.6 million of accounts and interest receivable, $348.8 million of taxes receivable, $26.2 million of inventories and $65.1 million of prepaid and deferred charges.

Contingent Liabilities

The following table summarizes outstanding contingent liabilities at March 31, 1999 with comparable numbers for March 31, 1998:

CONTINGENT LIABILITIES

	At March 31,	
	1998	1999
	(millions of dollars)	
Bank Loans		
Under Various Acts	$56.4	$80.8
Less: Provision for Possible Losses	11.0	16.3
Total Contingent Liabilities	$45.4	$64.5

Due to the adoption of the definition of the Reporting Entity recommended by the Public Sector Accounting and Auditing Board of the CICA, guarantees associated with the debt of New Brunswick Power Corporation and the New Brunswick Municipal Finance Corporation are not included in the previous table. These guarantees are as follows:

	At March 31,	
	1998	1999
	(millions of dollars)	
Bonds, Debentures and Notes		
New Brunswick Power Corporation[1]	$425.0	$350.0
New Brunswick Municipal Finance Corporation	328.5	334.5
Loans from Northern Canada Power Commission to New Brunswick Power Corporation	15.6	12.7
	769.1	697.2
Less: Sinking Funds	152.6	110.1
	616.5	587.1
Accrued Interest[1]	25.9	23.3
Total	$642.4	$610.4

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[1] Foreign denominated debt plus accrued interest are expressed as the Canadian dollar equivalent at fiscal year end rates of exchange.

Debt Record

The Province has always paid promptly when due the full amount of the principal of, redemption premium, if any, and interest on every direct obligation issued by it and every indirect obligation on which it has been required to implement its guarantee, all in the lawful currency of the country where payable at the time of payment thereof, subject during wartime to any applicable restrictions of laws and regulations forbidding trading with the enemy.

CONSOLIDATION OF NEW BRUNSWICK PUBLIC SECTOR DEBT

Other than the Province, New Brunswick Power Corporation, New Brunswick Municipal Finance Corporation and municipalities are the only public sector entities with outstanding debt. Municipalities, with the exception of the City of Saint John, are required to obtain approval from the Provincial Government before borrowing money for capital expenditures.

CONSOLIDATED FUNDED DEBT AND CAPITAL LOANS OF THE NEW BRUNSWICK PUBLIC SECTOR

(millions of dollars)

Province of New Brunswick	
Funded Debt and Capital Loans	$7,194.0
Less: Sinking Funds	2,693.2
	4,500.8
Municipalities	
Funded Debt and Capital Loans	342.3
Total Public Sector Debt	$4,843.1

Information in the foregoing table relative to the Province is at March 31, 1999 and information relative to municipalities is the amount outstanding at December 31, 1998. The figures for the Province do not include contingent liabilities of the Province in respect of its guarantees of obligations of New Brunswick Power Corporation ($239.9 million net of sinking funds of $110.1 million). Also excluded is $2,765.9 million (net of sinking funds of $251.2 million) borrowed by the Province on behalf of New Brunswick Power Corporation. Such Crown Corporation debt is paid out of operating revenues rather than out of Provincial revenues. Between April 1, 1999 and December 13, 1999, the Province issued funded debt in the amount of $639.5 million.

With respect to New Brunswick public sector debt (calculated at the dates set forth in the immediately preceding paragraph), total debt per capita was $6,431.7, the ratio of total debt to personal income was 0.32 and the ratio of total debt to GDP was 0.28.

PUBLIC SECTOR PENSION LIABILITIES

The *Public Service Superannuation Act* establishes a plan under which pensions are paid to most government employees and to certain employees of boards or institutions affiliated with the Province. Employees contribute approximately 6.1% on average of their salaries into the Public Service Superannuation Fund (PSSF). Contributions are being paid by approximately 18,103 contributors. Contributions are also made by non-government participating employers. The Province is required to contribute into the PSSF an amount that is necessary, in addition to employee contributions, to cover current service cost. The Province will contribute approximately $53.3 million for the fiscal year ending March 31, 2000, consisting of $21.5 million as the employer portion of current service cost and $31.8 million as payment toward amortizing the unfunded pension liability. At March 31, 1999, the PSSF amounted to $2,614.8 million. If at any time the PSSF is unable to satisfy all pension liabilities, the deficiency will be met out of the ordinary revenue of the Province.

The *Teachers' Pension Act* establishes a plan for the payment of pensions to retired teachers or their surviving spouses and minor dependents. Teachers covered contribute approximately 7.6% on average of their salaries into the Teachers' Pension Fund (TPF). Contributions are being paid by approximately 9,386 contributors. At March 31, 1999, the TPF amounted to $2,525.3 million. The Province matches employee contributions into the TPF. The Province will contribute approximately $86.9 million for the fiscal year ending March 31, 2000, consisting of $28.0 million as the employer portion of current service cost and $58.9 million as the payment toward amortizing the unfunded pension liability. If at any time the TPF is unable to satisfy all pension liabilities, the deficiency will be met out of the ordinary revenue of the Province.

On the basis of April 1, 1999 actuarial valuations, the actuarial unfunded liability projected to March 31,1999 is approximately $108.68 million for the PSSF and approximately $43.73 million for the TPF.

Significant actuarial assumptions used in the valuations were:

	Short Term	Long Term
Salary escalation rate	2.00% or 4.00%	4.00%
Real rate of return	4.25%	4.25
Inflation	2.00% to 4.50%	4.50

In the fiscal year ended March 31, 1992, the Province initiated a series of measures designed to eliminate the unfunded liability under the above noted plans. These measures included: (i) each of New Brunswick Power Corporation, Workplace Health, Safety and Compensation Commission and New Brunswick Liquor Corporation assuming responsibility for the portion of the unfunded liability attributable to their respective employees; (ii) employee contributions pursuant to the Teachers' Pension Plan being increased by 1.5% of salary and members of the Public Service Superannuation Plan contributing an additional 0.5% of salary; and (iii) the Province eliminating the remaining unfunded liability through a series of payments, escalated annually at the rate of inflation plus 2.0%, over a period of approximately 25 years. During the fiscal year ended March 31, 1999, approximately $30.8 million and $57.1 million were paid by the Province into the PSSF and the TPF, respectively.

School board employees and certain hospital employees are covered under separate plans which are, as a group, operated on a fully funded basis.

During the fiscal year ended March 31, 1994, the Province adopted the pension accounting recommendations of the Public Sector Accounting and Auditing Board of the CICA. Previously, a pension obligation was not recognized in the Province's Statement of Financial Position, and the Province's pension expense was measured as the amount of contributions paid into each pension fund during the fiscal year.

New Brunswick Investment Management Corporation

In 1996, legislation was proclaimed establishing the New Brunswick Investment Management Corporation. The corporation acts as trustee for a number of major public sector pension funds. The creation of the corporation assists in the development of the Provincial financial services industry and allows for cost-effective management of these pension plan assets.

NEW BRUNSWICK POWER CORPORATION

New Brunswick Power Corporation (the "Corporation"), formerly The New Brunswick Electric Power Commission, was established in 1920 under the *Electric Power Act* which provides that the Corporation is an agent of the Crown in right of the Province. The *Electric Power Act* states that the objective of the Corporation shall be "to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power". At March 31, 1999, the Corporation operated six hydro-electric plants with a combined net generating capacity of 884 megawatts, one CANDU nuclear plant at Point Lepreau with a net generating capacity of 635 megawatts, five thermal plants with a combined net generating capacity of 2,074 megawatts and three combustion turbine plants with a combined net generating capacity of 526 megawatts. The Corporation's total net generating capacity of 4,119 megawatts constitutes 94.2% of the net generating capacity in the Province. Gross investment in all plants at March 31, 1999 was $3,683 million.

At March 31, 1999, the Corporation maintained 6,660 kilometers of transmission lines and 25,475 kilometers of distribution lines, representing a gross investment of $249 million and $636 million, respectively. The Corporation also had an investment of $390 million in terminals and substations.

Interconnections

Beginning in the early 1970s, the Corporation significantly enlarged its interconnection facilities to take advantage of its favorable geographic position between the two very large electric power systems in Québec and New England and the other two Maritime Provinces. At March 31, 1999, interconnection capacity was as follows:

INTERCONNECTION CAPACITY

Utility System	Megawatts
Québec	1,100
New England	810
Nova Scotia	500
Prince Edward Island	200
Total	2,610

On March 1, 1996, the Corporation was granted two export permits by the National Energy Board for the export of firm and interruptible energy to the U.S. Export permits will remain in effect until December 31, 2006. The Corporation has recently applied for a third export permit for 224 MW for a 20 year period. These export permits have allowed the Corporation to implement a number of transaction agreements with entities not directly interconnected with New Brunswick and increase the range of potential business partners. The Corporation has a number of short term agreements with neighboring utilities both in the U.S. and in eastern Canada and other entities for the purchase and sale of energy and capacity. Additional transactions are implemented on an opportunity basis when beneficial to both parties.

Competition and Deregulation

In anticipation of a deregulated marketplace, the Corporation has been reorganized into four business units: generation (non-nuclear); nuclear generation; transmission and distribution; and customer service and marketing. All four business units are supported by a corporate services group. The Corporation has also moved merchant activities from transmission and distribution to generation and is developing a code of conduct for transmission and distribution employees.

Effective January 1, 1998, the Corporation provided open transmission access for parties to wheel power through and out of its system. The Province issued a discussion paper in February 1998 entitled "*Electricity in New Brunswick Beyond 2000*" which raised issues concerning the future of electricity generation in New Brunswick. The Province also commissioned a two-person committee to study these issues. This Committee issued its report in July 1998 entitled "*Electricity in New Brunswick and Options for its Future*" which describes options on how the Corporation could be restructured to compete in a re-regulated and competitive environment.

The Province created a Select Committee on Energy in 1998 to consider the implication of natural gas and to examine the future of the electric utility industry in the province. This Committee held public hearings on the future of electricity deregulation over the fall and winter months of 1998-99. The Committee issued their report in May, 1999 recommending a specific plan of action for deregulation. The Province to date has not taken action on the Select Committee report.

Natural Gas

The availability of natural gas coupled with new transmission access regulations is allowing the Corporation to create partnerships for infrastructure redevelopment. The Corporation's objective is to take advantage of economic and environmental benefits of natural gas while mitigating competitive impacts. There is the likelihood that export benefits will be reduced as natural gas is utilized in New England. There is also, however, the opportunity to use natural gas to generate electricity in New Brunswick for significant benefits. The Corporation has entered into an agreement with a third party for re-powering an existing 100 MW unit at Courtenay Bay to a 280 MW combined-cycle natural gas unit for operation in 2001. The Corporation will contribute site infrastructure and will contract to purchase the electric output during the winter months over a 20 year contract term.

Point Lepreau

1998-99 Results. During the fiscal year ended March 31, 1999, the Point Lepreau nuclear generating station operated at a capacity factor of 84 per cent compared to 66 per cent in the prior year. A performance improvement program focused on safety awareness, supervisory effectiveness and work methods was implemented in the fiscal year ended March 31, 1998.

Deferred Charge Write-Off. In 1997-98, the Corporation engaged the consulting firm Hagler Bailly of Arlington, Virginia to undertake a comprehensive analysis of the short- and long-term technical and economic factors affecting the future operation of the Point Lepreau nuclear generating station. The study indicated that although operation of the facility is economic in the near term, a major refurbishment of the plant will be required sometime around the year 2008. A decision to refurbish, giving a further 25 years life, or shutdown will be made sometime over the next four to six years as operational circumstances warrant and uncertainty reduces.

The Corporation's depreciation policy, until 1997-98, was based on the plant continuing to operate until the year 2014. As a result of the study, the carrying value of the plant was reduced by $450 million, representing the portion of the capitalized value of the facility unrecoverable through depreciation prior to either the required refurbishment or shutdown if a decision is made not to proceed with refurbishment. An offsetting deferred charge of $450 million was reported on the balance sheet for the fiscal year ended March 31, 1998. The Corporation has written off the deferred charge against income for the fiscal year ended March 31, 1999.

Decommissioning and Irradiated Fuel Management. Each year the Corporation charges to income an amount to provide for the estimated future costs of disposing of irradiated nuclear fuel and decommissioning the nuclear generating station to return the site to a state of unrestricted use. The last update of requirements was completed in 1996. Consistent with practice in the Canadian nuclear industry, the amounts are not currently funded.

Development

Capital spending totaled $65 million in the fiscal year ended March 31, 1999 compared to $59 million in the fiscal year ended March 31, 1998. The increase was primarily due to investments in information technology.

Financial Requirements

The Corporation estimates its capital expenditures for the five years ending March 31, 2004 to be in the range of $100 million to $115 million annually.

For the same five-year period debt maturities and sinking fund requirements are estimated at $1.3 billion, net of sinking funds estimated to be available at maturity. The debt maturities include expected early redemptions of high coupon debt issues where call option opportunities exist. Of the $1.3 billion, $688 million matures in the fourth year. The Corporation estimates that approximately fifty percent of the total requirement of debt retirement and capital expenditure will be provided from the Corporation's cash flow. The remainder will be provided by borrowings guaranteed or advanced by the Province.

Debt Reduction

Free cash flow was $189 million in the fiscal year ended March 31, 1999 compared to $67 million in the fiscal year ended March 31, 1998. (Free cash flow is defined as operating cash flow, less capital expenditures, plus customer contributions and changes in working capital, less deferred pensions). After a balance sheet adjustment for foreign exchange losses, debt reduction was $123 million compared to $44 million the previous year. The Corporation expects continuing improvement in operating cash flow and debt reduction.

Rates

Under the *Electric Power Act*, rates are charged by the Corporation to cover all operating charges and expenses, overhead, interest and amortization charges, and to maintain "such reserve, depreciation and surplus accounts as are maintained by a properly managed corporation". Effective January 1, 1990, the Corporation became subject to rate regulation by the Board of Commissioners of Public Utilities ("Public Utilities Board"). The Lieutenant-Governor in Council may reverse or vary any rate order of the Public Utilities Board, and if this occurs, there is no appeal. The mandate of the Public Utilities Board does not extend to areas such as approval of borrowings or contracts for the sale or purchase of electricity outside the Province.

The *Public Utilities Act* was amended on December 10, 1993 to provide a form of "price cap" regulation. Since that date, the Corporation may implement rate increases in any fiscal year of up to 3.0% or the rate of inflation, whichever is greater, without review or approval by the Public Utilities Board. In addition, the Corporation must, before making any direct capital expenditures for new generating facilities, apply to the Public Utilities Board for its recommendations as to those proposed capital expenditures. The Public Utilities Act was also amended in November, 1997, to require the Corporation to apply to the Public Utilities Board for its recommendations before making any expenditure in excess of $75 million in relation to the decommissioning of a generating facility or a proposed maintenance program or a proposed upgrading program for a generating facility or a combination of such programs for a generating facility.

Rate increases in the past five fiscal years are shown in the following table:

AVERAGE RATE INCREASES

	Year Ended March 31,				
Customer Classification	**1995[1]**	**1996[2]**	**1997[3]**	**1998[4]**	**1999[5]**
Residential	2.8%	2.4%	3.4%	3.4%	3.4%
General Service	2.8	1.5	2.2	2.3	2.2
Industrial	2.8	2.0	2.9	2.9	2.9
Wholesale	2.8	2.0	2.9	2.9	2.9
Street Lights	2.8	2.0	1.5	0.0	0.0

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[1] Increase effective October 1, 1994.
[2] Increase effective December 1, 1995.
[3] Increase effective October 1, 1996.
[4] Increase effective October 1, 1997.
[5] Increase effective October 1, 1998.

Statistical Information

The following table sets forth certain information with respect to the peak demand and capacity for each of the fiscal years 1995 through 1999.

PEAK DEMAND AND CAPACITY

Year Ended March 31,	In-Province Peak Demand	Out-of-Province Firm Sales[1]	Total Peak Demand	Total Net Generating Capacity and Firm Capacity Purchases[1]
		(megawatts)		
1995	2,790	460	3,250	4,121
1996	2,826	462	3,288	4,121
1997	2,832	487	3,319	4,160
1998	2,792	492	3,284	4,168
1999	2,786	531	3,317	4,168

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[1] At the time of the In-Province Peak Demand.

The following table sets forth certain statistical information for the five fiscal years ended March 31, 1999.

SELECTED OUTPUT AND SALES DATA

	Year Ended March 31,				
	1995	1996	1997	1998	1999
System Power Generated and Purchased (in millions of kilowatt-hours)					
Generated	14,667	12,950	14,795	17,242	20,099
Purchased	3,559	6,274	3,908	3,148	2,568
	18,226	19,224	18,703	20,390	22,667
Losses and Internal Use	1,865	1,886	1,899	1,813	2,070
Total Energy Available	16,361	17,338	16,804	18,577	20,597
Electric Sales (in millions of kilowatt-hours)					
In-Province	12,564	13,198	13,256	13,806	13,549
Out-of-Province	3,797	4,140	3,548	4,771	7,048
Total Electric Sales	16,361	17,338	16,804	18,577	20,597
Revenue from Sale of Power (in millions of dollars)					
In-Province	$751	$801	$825	$869	$872
Out-of-Province	164	187	182	244	304
Total Revenue from Sale of Power	915	988	1,007	1,113	1,176
Miscellaneous Revenue	27	30	30	27	28
Total Revenue	$942	$1,018	$1,037	$1,140	$1,204
Number of Customers (at end of period)[1]	334,375	337,122	339,550	342,095	344,086
Average Revenue per kilowatt-hour					
In-Province	5.98¢	6.07¢	6.22¢	6.29¢	6.44¢
Out-of-Province	4.32	4.52	5.13	5.11	4.31

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[1] Includes customers served indirectly through local distribution companies in the Cities of Saint John and Edmundston (40,673 at March 31, 1999).

Operations and Financial Review

The financial information which follows is on a consolidated basis for the fiscal year ended March 31, 1999 for the Corporation and its wholly-owned subsidiary, N.B. Coal Limited. Income before transfer and write-off was $18 million in the fiscal year ended March 31, 1999 compared to a loss of $43 million in the fiscal year ended March 31, 1998, an improvement of $61 million. The $450 million deferred charge relating to the projected life of Point Lepreau nuclear generating station, identified during the fiscal year ended March 31, 1998, has been charged against income during the fiscal year ended March 31, 1999.

Total revenue amounted to $1,204 million, an increase of $64 million or 5.6% from the previous year. During the fiscal year ended March 31, 1999, revenues from sales of power in-province rose $3 million or 0.3% to $872 million. This modest increase was the result of several factors of which the most significant were a 2.9% rate increase implemented October 1, 1998 offset by reduced load due to unseasonably warm winter months. Out-of-province power sales increased by $60 million or 24.6% from the previous year. The profit margin achieved on these sales increased by approximately $26 million over the previous year. Exports to New England represented 46% of out-of-province margins, reflecting demand created by warmer summer weather and unavailability of nuclear units in that region.

For the fiscal year ended March 31, 1999, energy was supplied as follows:

COMPOSITION OF ENERGY SUPPLY

	Total	**In Province**
Hydro	11.9%	17.4%
Heavy fuel oil & combustion turbine	26.4	20.1
Orimulsion	10.7	9.7
Coal	17.8	19.7
Nuclear	21.9	29.4
Purchases	11.3	3.7
Total	100.0%	100.0%

Fuel and purchased power costs decreased by $30 million or 7.4%. This net decrease in fuel and purchased power costs represents a decrease of $64 million to supply in-province sales and an increase of $34 million to supply out-of-province sales. The reduced cost to supply in-province sales was mainly attributable to lower fuel prices and an improved generation mix. Lower fuel prices for all energy sources lead to a decrease in expenses of $43 million. Prices for heavy fuel oil declined from an average of US $14 per barrel in fiscal year ended March 31, 1998 to less than US $10 per barrel in fiscal year ended March 31, 1999, resulting in a cost decrease of $35 million. Fuel price decreases were also experienced in imported and local coal and Orimulsion. The improvement in generation mix saved the Corporation $26 million compared to the previous year. This resulted from higher production in nuclear and hydro operations.

The increased cost to supply out-of-province sales was due mainly to an increase in energy sold of 48%. Lower oil prices were a major factor in minimizing the costs associated with the higher level of energy produced.

Operations, maintenance and administrative expenses ("OM&A") were $277 million in the fiscal year ended March 31, 1999 compared to $258 million in the fiscal year ended March 31, 1998. This represents an increase of $19 million or 7.4% primarily as a result of investments in the performance improvement program at Point Lepreau, investments in information systems and technology infrastructure upgrades, Year 2000 technology solutions and increased operating hours at the Coleson Cove generating station. Cost control measures successfully contained general OM&A expenses, partially offsetting the increased cost of the strategic investments in nuclear operations and information technology.

Depreciation, amortization and decommissioning increased by $12 million or 6.8% primarily due to the change in the method of depreciation for the nuclear generating station from escalating to straight-line and shortening of the service life of the station from 31 to 25 years.

Finance charges totaled $346 million for the fiscal year ended March 31, 1999 compared to $344 million for the previous year. This $2 million increase reflects a $12 million increase in foreign exchange costs offset by a $10 million decrease resulting from the cumulative impacts of the debt reduction program.

At March 31, 1999, the net long-term debt of the Corporation was $3,019 million (after deducting all sinking funds) based upon exchange rates prevailing on that date. All long-term debt is guaranteed or advanced by the Province.

The following summary financial information was extracted from the audited Consolidated Financial Statements of the Corporation.

NEW BRUNSWICK POWER CORPORATION

Summary Consolidated Balance Sheet[1]

	At March 31,	
	1998	1999
	(millions of dollars)	
Assets		
Fixed Assets	$3,252	$3,130
Long-term Assets	70	56
Current Assets	274	275
Deferred Charges	601	205
Total Assets	$4,197	$3,666
Liabilities & Equity		
Long-Term Debt	$3,075	$2,945
Current Liabilities	483	501
Deferred Liabilities	214	218
Equity	425	2
Total Liabilities and Equity	$ 4,197	$3,666

[1] Certain comparative numbers have been re-classified to conform with the 1999 financial statement presentation.

Summary Consolidated Statement of Income[1]

	Year Ended March 31,				
	1995	1996	1997	1998	1999
			(millions of dollars)		
Revenue	$942	$1,018	$1,037	$1,140	$1,204
Expenditures					
Cost of Energy	237	357	332	404	374
Operations	434	424	450	435	466
Interest and exchange	333	300	342	344	346
Total Expenditure	1,004	1,081	1,124	1,183	1,186
Income (loss) before transfers and write-off	(62)	(63)	(87)	(43)	18
Transfers[2]	88	71	68	22	9
Income (loss) before write-off	26	8	(19)	(21)	27
Write-off of deferred cost	-	-	-	-	450
Net Income (Loss) for the year	$ 26	$ 8	$ (19)	$ (21)	$(423)

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[1] Certain comparative numbers have been re-classified to conform with the 1999 financial statement presentation.

[2] Transfers to (from) generation equalization account, export sales stabilization account and transfer from the fuel channel removal account in 1996, 1997 and 1998. The Corporation has discontinued the practice of having reserve accounts. The balance in all accounts was eliminated in September, 1998.

Summary Consolidated Statement of Cash Flow[1]

	Year Ended March 31,				
	1995	1996	1997	1998	1999
			(millions of dollars)		
Net Income (Loss)	$ 26	$ 8	$ (19)	$ (21)	$(423)
Non-Cash Items	118	115	148	184	670
Net Change in Non-Cash Working Capital Balances	(29)	(11)	8	(25)	21
Cash Generated From Operating Activities	115	112	137	138	268
Cash Inflow (Outflow) Financing Activities	52	90	(79)	(84)	(186)
Cash Inflow (Outflow) Investing Activities	(160)	(164)	(69)	(70)	(79)
Net Cash Inflow (Outflow)	7	38	(11)	(16)	3
Cash Position at Beginning of Year	(14)	(7)	31	20	4
Cash Position at End of Year	$ (7)	$ 31	$ 20	$ 4	$ 7

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[1] Certain comparative numbers have been re-classified to conform with the 1999 financial statement presentation.

TABLES AND SUPPLEMENTARY INFORMATION OF THE PROVINCE

In the following tables, the revenue and expenditure for the four fiscal years ended March 31, 1999 have been extracted from the Public Accounts for such years (subject to certain adjustments for purposes of comparability). For the fiscal year ending March 31, 2000, the numbers have been extracted from the Budget and the forecast of revenue and expenditure published in the Budget Estimates. Revenue and expenditure are expressed on a net basis.

TABLE I - COMPARATIVE STATEMENT OF ORDINARY REVENUE

	Year Ended March 31,				
	1996	1997	1998 (millions of dollars)	1999	Budget Estimates 2000
Own Source					
Taxes	$2,114.0	$2,283.5	$2,117.7	$2,008.2	$2,211.4
Investment Income[1]	204.8	164.2	144.4	(237.8)	165.3
Licences and Permits	89.5	90.1	86.1	88.9	89.2
Sale of Goods and Services	73.2	80.0	82.1	81.4	80.2
Royalties	50.7	57.9	57.7	59.8	50.4
Return on Investment	21.4	22.6	20.5	19.6	16.7
Fines and Penalties	1.9	1.5	1.3	1.3	1.7
Other	5.2	2.4	21.8	13.7	10.3
Total - Own Source	2,560.7	2,702.2	2,531.6	2,035.1	2,625.2
Grants from Canada					
Unconditional Grants - Canada	1,193.7	1,314.7	1,399.3	1,866.7	1,541.9
Conditional Grants - Canada	297.8	87.8	136.4	188.6	174.0
Total Grants - Canada	1,491.5	1,402.5	1,535.7	2,055.3	1,715.9
Total Ordinary Revenue	$4,052.2	$4,104.7	$4,067.3	$4,090.4	$4,341.1

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[1] Includes Lottery Revenues, New Brunswick Municipal Finance Corporation, New Brunswick Liquor Corporation, New Brunswick Power Corporation, Workplace Health, Safety and Compensation Commission.

TABLE II - COMPARATIVE STATEMENT OF ORDINARY EXPENDITURE

	Year Ended March 31,				
	1996	1997	1998 (millions of dollars)	1999	Budget Estimates 2000
Social Services					
Education	$ 879.9	$ 883.2	$ 841.4	$ 836.4	$ 922.6
Health and Community Services	1,253.9	1,308.1	1,299.6	1,404.3	1,374.3
Income Assistance	300.7	303.1	310.7	299.8	309.4
Other Social Services	97.5	103.1	99.7	107.0	102.8
	2,532.0	2,597.5	2,551.4	2,647.5	2,709.1
Economic Development	267.0	273.7	334.2	417.5	385.5
Municipal Affairs	206.6	202.8	193.4	200.5	195.5
Transportation	130.8	139.9	141.8	148.1	137.3
Central Government	173.7	162.1	208.3	184.8	245.8
	3,310.1	3,376.0	3,429.1	3,598.4	3,673.2
Service of the Public Debt	595.0	564.4	574.1	616.4	610.0
Total Ordinary Expenditure	$3,905.1	$3,940.4	$4,003.2	$4,214.8	$4,283.2

TABLE III – COMPARATIVE STATEMENT OF NET CAPITAL EXPENDITURE

	Year Ended March 31,				
	1996	1997	1998	1999	Budget Estimates 2000
			(millions of dollars)		
Expenditure:					
Highways	$253.7	$233.9	$217.4	$175.6	$175.5
Bridges	13.8	12.3	14.3	19.5	22.2
Economic and Regional Development Projects	11.9	13.9	13.8	5.6	6.8
Schools	24.0	25.2	24.9	20.3	38.0
Hospitals	53.9	43.8	14.2	11.3	7.3
Other Public Buildings	9.2	7.5	10.2	7.2	10.6
Land Purchases	—	—	—	62.6	—
Industrial Parks	—	—	1.5	2.5	3.3
Water Pollution Control Grants	5.2	2.8	2.9	0.8	2.4
Solid Waste Management	3.8	4.7	4.7	10.7	5.0
Purchase of Vehicles and Equipment	8.5	8.1	5.5	4.3	2.9
Infrastructure Programs	14.0	7.5	6.9	—	—
Other	0.4	10.5	20.6	4.8	9.5
Total Expenditure	398.4	370.2	336.9	325.2	283.5
Recoveries:					
Recoveries from Canada					
Highways	68.9	55.7	24.4	19.1	33.7
Economic and Regional Development Projects	6.1	6.0	6.1	8.2	3.2
Other	26.0	28.1	46.5	10.1	—
	101.0	89.8	77.0	37.4	36.9
Other Recoveries	2.1	2.7	3.7	4.5	1.7
Total Recoveries	103.1	92.5	80.7	41.9	38.6
Net Capital Expenditure	$295.3	$277.7	$256.2	$283.3	$244.9

TABLE IV – COMPARATIVE STATEMENT OF NET DEBT

	Year Ended March 31,				
	1996	1997	1998	1999	Budget Estimates 2000
			(millions of dollars)		
Net Debt - Beginning of year	$5,889.1	$5,848.5	$5,782.5	$5,747.7	$5,912.0
Ordinary Account Surplus (Deficit)	147.1	164.3	64.1	(124.4)	58.0
Net Capital Expenditure	(295.3)	(277.7)	(256.2)	(283.3)	(244.9)
Special Purpose Surplus (Deficit)	(0.4)	(0.9)	20.3	8.7	0.1
Special Operating Agency Surplus (Deficit)	2.6	1.5	5.2	5.3	(3.9)
Earnings from Sinking Funds	186.1	181.2	200.2	226.5	203.0
Adjustments on Consolidation	0.5	(2.4)	1.2	2.9	—
(Increase) Decrease in Net Debt for the year	40.6	66.0	34.8	(164.3)	12.3
Net Debt - End of year	$5,848.5	$5,782.5	$5,747.7	$5,912.0	$5,899.7

TABLE V -- COMPARATIVE STATEMENT OF NET LOANS AND ADVANCES

	Year Ended March 31,				
	1996	1997	1998	1999	Budget Estimates 2000
			(millions of dollars)		
Disbursements:					
Agricultural Development Board and New Brunswick Crop Insurance Commission	$ 2.9	$ 2.3	$ 2.8	$ 4.4	$ 7.4
Algonquin Properties Ltd.	0.7	2.1	1.0	1.2	1.0
Economic Development Act...................................	28.4	18.2	44.7	22.2	45.0
Fisheries Development Act....................................	3.1	2.8	3.8	4.5	8.0
Housing	2.6	2.5	1.9	6.3	7.1
Greater Moncton Area Transitional Policing.........	---	---	---	---	3.0
Other	---	---	0.2	4.2	---
	37.7	27.9	54.4	42.8	71.5
Recoveries:					
Agricultural Development Board and New Brunswick Crop Insurance Commission	1.1	2.9	0.6	0.9	1.5
Economic Development Act..................................	7.7	5.9	14.9	23.6	7.5
Fisheries Development Act...................................	11.3	7.5	5.4	3.3	4.0
Housing	2.4	3.1	2.8	2.6	2.4
Other...	1.7	1.2	1.3	1.9	1.7
	24.2	20.6	25.0	32.3	17.1
Net Loans and Advances..	$13.5	$ 7.3	$29.4	$10.5	$54.4

FUNDED DEBT AND CAPITAL LOANS OUTSTANDING AT MARCH 31, 1999

Date of Maturity	Interest Rate %	Sinking Fund Installment Rate(A) %	Series	Currency Amount	Amount Outstanding in Canadian Equivalent (B)	Date Issued	Reference
Repayable in U.S. Dollars:							
1 Oct. 2002	7.125	1.5 & 1	EL	US$ 257,000,000	C$ 387,864,400	Oct. 1992, Dec. 1993	2,14
29 June 2004	7.625	1.5	EY	200,000,000	301,840,000	June 1994	2
5 July 2004	7.556	1.5	EX	47,500,000	71,687,000	July 1994	2,16
20 June 2005	6.5	1.5	FH	150,000,000	226,380,000	June 1995	2
15 Feb. 2013	7.625	1.5 & 1	EO	200,000,000	301,840,000	Feb. 1993	2
15 Aug. 2013	6.75	1.5 & 1	ET	200,000,000	301,840,000	Sept. 1993	2
3 Mar. 2018	9.5	1.5 & 1	DM	139,005,000	209,786,346	Mar. 1988	7,10
15 May 2020	9.75	1.5 & 1	DU	200,000,000	301,840,000	May 1990	2
1 May 2022	8.75	1.5 & 1	EI	200,000,000	301,840,000	May 1992	2
				US$1,593,505,000	C$2,404,917,746		
Repayable in Japanese Yen:							
7 July 2000-10	5	1.5	DI	¥ 12,000,000,000	C$ 153,000,000	July 1987	8
				¥ 12,000,000,000	C$ 153,000,000		
Repayable in Swiss Francs:							
1 Mar. 2001	7.375	1.5	DY	Sfr 130,000,000	C$ 132,873,000	Mar. 1991	2
3 Nov. 2006	5.625	1.5	FQ	100,000,000	102,210,000	Mar. 1998	20
				Sfr 230,000,000	C$ 235,083,000		
Repayable in Canadian Dollars:							
2 Apr. 1999-3 Mar. 2000	9.98 - 12.74	1	CP		53,789,000	1979-1980	1
15 Aug. 1999	9.75	1.5	DS		125,000,000	Aug. 1989	2
11 Oct. 1999	12.125	1.5	CU		35,000,000	Oct. 1984	2
22 Mar. 2000	8.25	1.5 & 1	FD		200,000,000	Mar. 1995	2
1 Apr. 2000-1 Mar. 2001	11.61 - 13.39	1	CP		53,014,000	1980-1981	1
14 July 2000	7.625	1.5 & 1	FI		150,000,000	July 1995	2
31 July 2000	-	1.5	CZ		23,750,713	July 1985	2,5
13 Dec. 2000	11.25	1.5 & 1	DW		150,000,000	Dec. 1990	2
22 Feb. 2001	10.75	1.5 & 1	DQ		250,000,000	Feb. 89/91	2,8
1 Apr. 2001-1 Mar. 2002	13.66 - 17.51	1	CP		75,637,000	1981-1982	1
2 Apr. 2001	10.5	1.5 & 1	DZ		50,000,000	Apr. 1991	2
1 June 2001	9.75	1.5 & 1	EA		250,000,000	Apr.,June 1991	2,10
19 Mar. 2002	9.25	1.5 & 1	EH		200,000,000	Mar. 1992	2
1 Apr. 2002-1 Mar. 2003	12.01 - 16.53	1	CP		73,185,000	1982-1983	1
1 Apr. 2002	9.125	1.5 & 1	EE		200,000,000	Dec. 1991	2
23 May 2002	8.1	1.5	FG		20,000,000	May 1995	2
26 Aug. 2002	8.375	1.5 & 1	EK		200,000,000	Aug. 1992	2
9 Dec. 2002	8.44	1.5	EM		30,640,612	Dec. 1992	2,11
17 Mar. 2003	8	1	EQ		300,000,000	Mar.,Apr. 1993	2,14
5 Apr. 2003-1 Mar. 2004	10.92 - 12.14	1	CP		71,205,000	1983-1984	1
28 July 2003	7.5	1.5 & 1	ES		200,000,000	July 1993	2
3 Dec. 2003	7.441	1.5	EU		59,750,462	Dec. 1993	2,12
2 Apr. 2004-10 Jan. 2005	12.08 - 14.06	1	CP		67,087,000	1984-1985	1
9 June 2004	5.4	1.5	FS		50,000,000	June 1998	2
26 Aug. 2004	Floating	1.5	EZ		71,200,000	Aug. 1994	2,16
27 Sept. 2004	Floating	1.5	FB		41,101,521	Sept. 1994	2,17
1 Oct. 2004	Floating	1.5	FA		55,100,000	Sept. 1994	2,18
10 Apr. 2005-10 Dec. 2005	10.80 - 12.57	1	CP		46,125,000	1985	1
19 Apr. 2005	8.75	1.5 & 1	FE		200,000,000	Apr. 1995	2
15 Dec. 2005	7.5	1.5 & 1	FK		200,000,000	Dec. 1995	2
9 May 2006-10 Mar. 2007	9.04 - 9.97	1	CP		75,518,000	1986-1987	1
19 June 2006	7.75	1.5	FL		200,000,000	June 1996	2
16 Sept. 2006	9.75	1.5	DE		100,000,000	Sept. 1986	4
16 Oct. 2006	7.10	1.5	FM		200,000,000	Oct. 1996	2
3 Nov. 2006	5.625	1.5	FQ		54,932,240	Mar. 1998	2,19
26 Feb. 2007	6.75	1.5& 1	FN		200,000,000	Feb. 1997	2
10 Apr. 2007- 10 Mar. 2008	9.12 - 11.07	1	CP		62,396,000	1987-1988	1
11 Apr. 2008- 1 Dec. 2008	9.62 - 10.39	1	CP		59,314,000	1988	1
2 June 2008	5.70	1.5	FR		550,000,000	Mar. 1998	2,20
3 Apr. 2009-1 Mar. 2010	9.15 - 10.31	1	CP		64,307,000	1989-1990	1
22 June 2009	10.25	1.5	DR		88,019,000	June 1989	2,9
23 Nov. 2009	10	1.5 & 1	DT		120,359,000	Nov. 1989	2,9
2 Apr. 2010- 1 Mar. 2011	10.36 - 11.04	1.5	CP		40,360,000	1990-1991	1
10 Apr. 2011-10 July 2011	9.81 - 10.04	1.5	CP		58,458,000	1991	1
31 Oct. 2011	10.125	1.5 & 1	ED		200,000,000	Oct. 1991	2
11 May 2012-10 July 2012	9.17 - 9.45	1.5	CP		41,673,000	1992	1
18 Jan. 2013	9.25	1.5 & 1	EN		200,000,000	Jan. 1993	2

28 June 2013	8.5	1.5 & 1	ER	200,000,000	June 1993	2
13 Jan. 2014	7.75	1.5	EW	200,000,000	Jan. 1994	2
12 May 2015	8.75	1.5 & 1	FF	200,000,000	May 1995	2
27 June 2017	6.75	1.5	FO	250,000,000	June 1997	2
27 Dec. 2017	6	1.5	FP	250,000,000	Nov. 1997	2
27 Dec. 2028	5.65	1.5	FT	500,000,000	July 1998 Feb. 1999	2,21
1998-1999	7.166 - 8.789	SR	Capital Loans	1,182,659	1975-1977	3
				C$ 7,418,104,207		
				C$10,211,104,953		

Notes:

(A) SR: Serial Redemption. Up to March 31, 1980, the sinking fund installment rate on the Series CP debentures was 3%. Commencing April 1, 1980 the minimum rate was reduced to 1%.

(B) Canadian dollar equivalents are calculated at fiscal year end rates of exchange or, where hedges are in place, at the rates of exchange established by such hedges.

References

(1) Issued to Canada Pension Plan, not negotiable, transferable or assignable. Twenty year bonds redeemable in whole, or in part, at 100% on not less than six months notice.

(2) Non-callable.

(3) Under the Second Special Areas Agreement between Canada and New Brunswick dated August 20, 1971, the amortization periods for these loans commence on March 31 of the fiscal year in which the project is completed. Interest on payments made by Canada is at a rate determined by the Minister of Finance of Canada in respect of advances of funds provided to Crown Corporations with the rate of interest applicable at the date of commencement of the amortization period, being a weighted average of these rates.

(4) Redeemable at the option of the Province on September 16, 2003 or on any date thereafter prior to maturity, as a whole or in part, on not less than 30 days notice at 100% of the principal amount plus accrued interest, if any, to the date fixed for redemption.

(5) Canadian $23,750,713 represents the amount payable under a currency exchange agreement with a counterparty for the repayment at maturity of the Province's debt of CZ 10.5% US $15,600,000 due July 31, 2000. Annual interest payment under the agreement is Canadian $2,078,187.

(6) Redeemable in whole or in part at any time on or after March 3, 2003 at par plus accrued interest on not less than 30 day's prior notice.

(7) Repayable in 20 semi-annual installments of 4.7% of the principal from July 7, 2000 to January 7, 2010 with the remaining balance due on July 7, 2010. Redeemable in whole or in part at the option of the Province on not less than 30 days notice on July 7, 2000 or any interest payment date thereafter at a premium of one half of one percent of the principal amount prepaid plus accrued interest provided that the amount prepaid is one billion yen or an integral multiple thereof or all of the loan then outstanding.

(8) In February 1991, the Province issued an additional $100,000,000 of its Series DQ notes.

(9) Pursuant to Section 24 of the Provincial Loans Act, the Minister of Finance authorized the cancellation of a portion of this issue held as an investment in Sinking Fund #7 effective April 1, 1991. The sinking fund installment is the same as that made prior to the cancellation.

(10) In June 1991, the Province issued an additional $100,000,000 of its Series EA debentures.

(11) Canadian $30,640,612 represents the amount payable under an interest rate and currency exchange agreement with a counterparty for the repayment at maturity of the Province's debt of Series EM 5.5% 3,000,000,000 Yen due December 9, 2002. Interest is payable semi-annually in Canadian dollars at the rate of 8.44% per annum.

(12) Canadian $59,750,462 represents the amount payable under an interest rate and currency swap agreement with a counterparty for the repayment at maturity of the Province's debt of series EU 5,000,000,000 Yen due December 3, 2003. Interest is payable at the rate of 7.441% semi-annually.

(13) In December 1993, the Province issued an additional US $32,000,000 of its series EL debentures.

(14) In April 1993, the Province issued an additional $100,000,000 of its series EQ debentures.

(15) US $47,500,000 represents the amount payable under an interest rate and currency swap agreement with a counterparty for the repayment at maturity of the Province's debt of Series EX 4.6% 5,000,000,000 Yen due July 5, 2004. Interest payments under the agreement are at a rate of 7.556% semi-annually in US dollars.

(16) Canadian $71,200,000 represents the amount payable under an interest rate and currency swap agreement with a counterparty for the repayment at maturity of the Province's debt of Series EZ 4.4% 5,000,000,000 Yen due August 26, 2004. Interest is payable semi-annually in Canadian dollars at a floating rate.

(17) Canadian $41,101,521 represents the amount payable under an interest rate and currency swap agreement with a counterparty for the repayment at maturity of the Province's debt of Series FB 4.7% 3,000,000,000 Yen due September 27, 2004. Interest is payable semi-annually in Canadian dollars at a floating rate.

(18) Canadian $55,100,000 represents the amount payable under an interest rate and currency swap agreement with a counterparty for the repayment at maturity of the Province's debt of Series FA 4.76% 4,000,000,000 Yen due October 1, 2004. Interest is payable quarterly in Canadian dollars at a floating rate.

(19) Swiss Franc 100,000,000 represents the amount payable under a swap transaction for the repayment at maturity of a portion of series FQ due November 3, 2006. The remaining $54,932,240 of series FQ is repayable in Canadian dollars. Interest is payable semi-annually in Canadian dollars.

(20) In October 1998, the Province issued an additional $250,000,000 of its Series FR debentures.

(21) In February 1999, the Province issued an additional $250,000,000 of its Series FT debentures.

FOREIGN EXCHANGE

Canada maintains a floating exchange rate for the Canadian dollar to permit the rate to be determined by fundamental market forces without intervention except as required to maintain orderly conditions.

Spot exchange rates for the U.S. dollar, Japanese yen and Swiss franc in Canada, expressed in Canadian dollars, are shown in the table below for 1994 through 1998.

Average of Noon Spot Rates	1994	1995	1996	1997	1998
U.S. Dollar	$1.3659	$1.3726	$1.3636	$1.3844	1.4831
Japanese Yen (100 yen)	1.339	1.470	1.255	1.145	1.139
Swiss Franc	1.0024	1.1633	1.1051	0.9548	1.0258

Source: Bank of Canada

SOURCES OF INFORMATION

Information included herein which is designated as being taken from a publication of the Province or Canada, or any agency or instrumentality of either, is included herein upon the authority of such publication as a public official document.

The financial statements of the Province included herein under the heading "Tables and Supplementary Information of the Province" have been taken from the Public Accounts of the Province (subject to certain adjustments for purposes of comparability) and the forecast of revenue and expenditure published in the Budget Estimates. All financial information of the Province contained herein was obtained from the annual Budget and Main Estimates, the financial reviews pertaining thereto and the Public Accounts, or was prepared by representatives of the Department of Finance in their official capacities. The information set forth under "Province of New Brunswick", and other than as described in the preceding paragraph, was prepared by representatives of the Department of Finance in their official capacities.

Exhibit e

AUDITOR'S REPORT

To the Legislative Assembly
Province of New Brunswick

I have audited the statement of financial position of the Province of New Brunswick as at 31 March 1999 and the statements of revenue and expenditure, cash flow and net debt for the year then ended. These financial statements are the responsibility of government. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by government, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province as at 31 March 1999 and the results of its operations and its cash flows for the year then ended in accordance with the accounting policies set out in Note 1 to the financial statements. As required by section 10 of the Auditor General Act, I report that, in my opinion, these policies have been applied, after giving retroactive effect to the changes in accounting for hospital corporations, Service New Brunswick and real property leases, and except for the change in accounting for low interest loans, as explained in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

Daryl C. Wilson, FCA
Auditor General

15 December 1999

Office of the Auditor General
P.O. Box 758
Fredericton, New Brunswick E3B 5B4

M121

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STATEMENT OF FINANCIAL POSITION
as at 31 March 1999

Schedule		(millions) 1999	1998
	ASSETS		
1	Accounts and Interest Receivable	$ 331.3	$ 218.3
2	Taxes Receivable	348.8	355.2
3	Inventories	26.2	26.9
4	Prepaid and Deferred Charges	65.1	74.8
	Unrealized Foreign Exchange Losses	189.9	84.6
5	Loans and Advances	123.7	174.5
6	Investments	55.9	460.7
	Excess of Pension Assets Over Accrued Benefits (Note 14)	216.5	532.5
	Total Assets	$ 1,357.4	$ 1,927.5
	LIABILITIES		
7	Bank Advances and Short Term Borrowing	$ 281.1	$ 294.4
8	Accounts Payable	429.4	272.6
9	Accrued Expenditures	653.2	614.2
10	Allowance for Losses	16.3	11.0
11	Deferred Revenue	340.7	586.4
12	Deposits Held in Trust	29.5	26.6
	Obligations under Capital Leases (Note 9)	29.2	29.7
	Unamortized Pension Adjustments and Valuation Allowance (Note 14)	989.2	1,595.2
		2,768.6	3,430.1
	Funded Debt (Note 12)	10,211.1	9,706.2
	Borrowing for NB Power Corporation	(3,017.1)	(3,021.1)
	Funded Debt for Provincial Purposes	7,194.0	6,685.1
	Sinking Fund Investments	(2,693.2)	(2,440.0)
		4,500.8	4,245.1
	Total Liabilities	7,269.4	7,675.2
	NET DEBT	(5,912.0)	(5,747.7)
		$ 1,357.4	$ 1,927.5

Contingent Liabilities - See Note 15
Commitments - See Note 16

The accompanying notes are an integral part of these Financial Statements.

Edward Mehan

Edward L. Mehan, C.M.A.
Comptroller

STATEMENT OF FINANCIAL POSITION
as at 31 March 1999

Schedule		(millions) 1999	1998
	ASSETS		
1	Accounts and Interest Receivable	$ 331.3	$ 218.3
2	Taxes Receivable	348.8	355.2
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	Total Liabilities	7,269.4	7,675.2
	NET DEBT	(5,912.0)	(5,747.7)
		$ 1,357.4	$ 1,927.5

Contingent Liabilities - See Note 15
Commitments - See Note 16

The accompanying notes are an integral part of these Financial Statements.

Edward Mehan

Edward L. Mehan, C.M.A.
Comptroller

STATEMENT OF REVENUE AND EXPENDITURE
for the fiscal year ended 31 March 1999

		(millions)		
Schedule		1999 Budget (Note 3)	1999 Actual	1998 Actual
	REVENUE			
	Provincial Sources			
13	Taxes on Consumption	$ 847.8	$ 814.0	$ 792.5
	Taxes on Property	263.4	236.8	244.0
14	Taxes on Income	963.0	899.6	1,021.1
15	Other Taxes	68.0	59.3	61.5
16	Licenses and Permits	95.1	94.6	89.5
17	Royalties	52.8	61.5	57.7
18	Investment Income	252.1	(202.3)	179.9
19	Other Provincial Revenue	128.0	174.6	175.0
	Sinking Fund Earnings	192.6	226.6	200.3
		2,862.8	2,364.7	2,821.5
	Federal Sources			
	Canada Health and Social Transfer	331.0	340.6	327.9
	Fiscal Equalization Payments	969.7	1,271.4	1,052.7
	Harmonization Transitional Payment	92.8	253.0	11.0
	Other Unconditional Grants - Canada	1.9	1.7	7.7
20	Conditional Grants - Canada	228.1	255.0	253.3
		1,623.5	2,121.7	1,652.6
	Total Revenue (Note 4)	4,486.3	4,486.4	4,474.1
	EXPENDITURE			
	Social Services			
21	Education	931.5	879.1	870.3
22	Health	1,330.0	1,418.7	1,315.5
23	Income Assistance	311.1	297.1	301.9
24	Justice	106.1	110.3	104.7
		2,678.7	2,705.2	2,592.4
25	Economic Development	444.9	559.4	441.8
26	Municipal Affairs	195.0	202.6	195.7
27	Transportation	329.5	357.3	379.8
28	Central Government	216.7	209.8	255.3
	Service of the Public Debt (Note 13)	603.0	616.4	574.2
	Total Expenditure (Notes 4 and 18)	4,467.8	4,650.7	4,439.2
	SURPLUS (DEFICIT)	$ 18.5	$ (164.3)	$ 34.9

The accompanying notes are an integral part of these Financial Statements.

STATEMENT OF CASH FLOW
for the fiscal year ended 31 March 1999

	(millions)	
	1999	1998
OPERATING ACTIVITIES		
Surplus (Deficit)	$ (164.3)	$ 34.9
Non Cash Items		
Amortization of Premiums, Discounts and Issue Expenses	6.7	8.4
Foreign Exchange Expense	47.0	19.7
Increase in Allowance for Doubtful Accounts	87.0	43.7
Sinking Fund Earnings	(226.6)	(200.3)
Actual Losses Due to Foreign Exchange	(22.6)	(24.8)
Decrease in Pension Liability (Note 14)	(289.9)	(189.1)
Decrease in Deferred Revenue	(245.7)	(20.9)
Capital Asset Acquisitions Charged to Operations	286.2	232.0
Proceeds from Disposal of Capital Assets	(4.0)	(4.2)
Decrease in Working Capital (Note 20)	60.9	88.7
Net Cash From Operating Activities	(465.3)	(11.9)
INVESTING ACTIVITIES		
Purchase of Capital Assets	(286.2)	(232.0)
Proceeds from Disposal of Capital Assets	4.0	4.2
(Increase) Decrease in Investments, Loans and Advances	413.9	(15.8)
Net Cash From (Used in) Investing Activities	131.7	(243.6)
FINANCING ACTIVITIES		
Proceeds from Issuance of Funded Debt	794.8	931.5
Received from Sinking Fund for Redemption of Debentures and Payment of Exchange	77.5	164.5
Increase (Decrease) in Obligations under Capital Leases	(0.5)	19.7
Sinking Fund Instalments	(104.2)	(99.3)
Serial Redemptions and Capital Loan Repayments	(2.4)	(2.2)
Funded Debt Matured	(418.3)	(739.5)
Net Cash From Financing Activities	346.9	274.7
INCREASE IN CASH POSITION DURING YEAR	13.3	19.2
CASH POSITION - BEGINNING OF YEAR	(294.4)	(313.6)
CASH POSITION - END OF YEAR	$ (281.1)	$ (294.4)
CASH REPRESENTED BY		
Bank Advances and Short Term Borrowing	$ (281.1)	$ (294.4)

The accompanying notes are an integral part of these Financial Statements.

STATEMENT OF REVENUE AND EXPENDITURE
for the fiscal year ended 31 March 1999

(millions)

Schedule		1999 Budget (Note 3)	1999 Actual	1998 Actual
	REVENUE			
	Provincial Sources			
13	Taxes on Consumption	$ 847.8	$ 814.0	$ 792.5
	Taxes on Property	263.4	236.8	244.0
14	Taxes on Income	963.0	899.6	1,021.1
15	Other Taxes	68.0	59.3	61.5
16	Licenses and Permits	95.1	94.6	89.5
17	Royalties	52.8	61.5	57.7
18	Investment Income	252.1	(202.3)	179.9
19	Other Provincial Revenue	128.0	174.6	175.0
	Sinking Fund Earnings	192.6	226.6	200.3
		2,862.8	2,364.7	2,821.5
	Federal Sources			
	Canada Health and Social Transfer	331.0	340.6	327.9
	Fiscal Equalization Payments	969.7	1,271.4	1,052.7
	Harmonization Transitional Payment	92.8	253.0	11.0
	Other Unconditional Grants - Canada	1.9	1.7	7.7
20	Conditional Grants - Canada	228.1	255.0	253.3
		1,623.5	2,121.7	1,652.6
	Total Revenue (Note 4)	4,486.3	4,486.4	4,474.1
	EXPENDITURE			
	Social Services			
21	Education	931.5	879.1	870.3
22	Health	1,330.0	1,418.7	1,315.5
23	Income Assistance	311.1	297.1	301.9
24	Justice	106.1	110.3	104.7
		2,678.7	2,705.2	2,592.4
25	Economic Development	444.9	559.4	441.8
26	Municipal Affairs	195.0	202.6	195.7
27	Transportation	329.5	357.3	379.8
28	Central Government	216.7	209.8	255.3
	Service of the Public Debt (Note 13)	603.0	616.4	574.2
	Total Expenditure (Notes 4 and 18)	4,467.8	4,650.7	4,439.2
	SURPLUS (DEFICIT)	$ 18.5	$ (164.3)	$ 34.9

The accompanying notes are an integral part of these Financial Statements.

STATEMENT OF CASH FLOW
for the fiscal year ended 31 March 1999

	(millions) 1999	1998
OPERATING ACTIVITIES		
Surplus (Deficit)	$ (164.3)	$ 34.9
Non Cash Items		
Amortization of Premiums, Discounts and Issue Expenses	6.7	8.4
Foreign Exchange Expense	47.0	19.7
Increase in Allowance for Doubtful Accounts	87.0	43.7
Sinking Fund Earnings	(226.6)	(200.3)
Actual Losses Due to Foreign Exchange	(22.6)	(24.8)
Decrease in Pension Liability (Note 14)	(289.9)	(189.1)
Decrease in Deferred Revenue	(245.7)	(20.9)
Capital Asset Acquisitions Charged to Operations	286.2	232.0
Proceeds from Disposal of Capital Assets	(4.0)	(4.2)
Decrease in Working Capital (Note 20)	60.9	88.7
Net Cash From Operating Activities	(465.3)	(11.9)
INVESTING ACTIVITIES		
Purchase of Capital Assets	(286.2)	(232.0)
Proceeds from Disposal of Capital Assets	4.0	4.2
(Increase) Decrease in Investments, Loans and Advances	413.9	(15.8)
Net Cash From (Used in) Investing Activities	131.7	(243.6)
FINANCING ACTIVITIES		
Proceeds from Issuance of Funded Debt	794.8	931.5
Received from Sinking Fund for Redemption of Debentures and Payment of Exchange	77.5	164.5
Increase (Decrease) in Obligations under Capital Leases	(0.5)	19.7
Sinking Fund Instalments	(104.2)	(99.3)
Serial Redemptions and Capital Loan Repayments	(2.4)	(2.2)
Funded Debt Matured	(418.3)	(739.5)
Net Cash From Financing Activities	346.9	274.7
INCREASE IN CASH POSITION DURING YEAR	13.3	19.2
CASH POSITION - BEGINNING OF YEAR	(294.4)	(313.6)
CASH POSITION - END OF YEAR	$ (281.1)	$ (294.4)
CASH REPRESENTED BY		
Bank Advances and Short Term Borrowing	$ (281.1)	$ (294.4)

The accompanying notes are an integral part of these Financial Statements.

STATEMENT OF NET DEBT
for the fiscal year ended 31 March 1999

	(millions) 1999	(millions) 1998
NET DEBT - BEGINNING OF YEAR		
As Previously Published	$ (5,672.2)	$ (5,733.8)
Prior Years' Adjustments (Note 2)		
Consolidation of Service New Brunswick	2.2	0.3
Deficits of Hospital Corporations	(48.1)	(39.1)
Recognition of Capital Leases	(29.6)	(10.0)
As Restated	(5,747.7)	(5,782.6)
SURPLUS (DEFICIT)	(164.3)	34.9
NET DEBT - END OF YEAR	$ (5,912.0)	$ (5,747.7)

The accompanying notes are an integral part of these Financial Statements.

STATEMENT OF NET DEBT
for the fiscal year ended 31 March 1999

	(millions) 1999	1998
NET DEBT - BEGINNING OF YEAR		
As Previously Published	$ (5,672.2)	$ (5,733.8)
Prior Years' Adjustments (Note 2)		
Consolidation of Service New Brunswick	2.2	0.3
Deficits of Hospital Corporations	(48.1)	(39.1)
Recognition of Capital Leases	(29.6)	(10.0)
As Restated	(5,747.7)	(5,782.6)
SURPLUS (DEFICIT)	(164.3)	34.9
NET DEBT - END OF YEAR	$ (5,912.0)	$ (5,747.7)

The accompanying notes are an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Provincial Reporting Entity

In these financial statements, the Province is defined as the Provincial Reporting Entity. The Provincial Reporting Entity is comprised of certain organizations that are accountable to the Legislature. These accountable organizations are the Consolidated Fund, the General Sinking Fund and certain agencies, commissions and corporations. The agencies, commissions and corporations included in this definition are identified below.

Transactions and balances of organizations are included in these financial statements through one of the following accounting methods:

> Consolidation method - This method combines the accounts of distinct organizations. It requires uniform accounting policies for the organizations. Inter-organizational balances and transactions are eliminated under this method. This method reports the organizations as if they were one organization.
>
> Modified equity method - This method is used for government enterprises. Government enterprises are defined in note 10 to these financial statements. The modified equity method reports a government enterprise's net assets as an investment in the Province's Statement of Financial Position. The net income of the government enterprise is reported as investment income in the Province's Statement of Revenue and Expenditure. Inter-organizational transactions and balances are not eliminated. All gains or losses arising from inter-organizational transactions between government enterprises and other government organizations are eliminated. The accounting policies of government enterprises are not adjusted to conform with those of other government organizations.
>
> Equity method – This method of accounting is used for Hospital Corporations. The accounting policies of the Hospital Corporations are adjusted to comply with the policies of the Province. The annual deficits or surpluses of the Hospital Corporations are recorded as an expenditure or revenue. The total net accumulated deficits or surpluses of the Hospital Corporations are recorded as a liability or asset. This method results in the same net position that would result from the consolidation method.
>
> Transaction method - This method records only transactions between the Province and the other organizations.

Organizations that have been included in the Provincial Reporting Entity through consolidation are:

Algonquin Properties Limited;
Arts Development Trust Fund;
Environmental Trust Fund;
Group Insurance Trust Fund;
Kingsbrae Horticultural Garden Inc.;
N.B. Agriexport Inc.;
New Brunswick Credit Union Deposit Insurance Corporation;
New Brunswick Highway Corporation;
New Brunswick Housing Corporation;
New Brunswick Investment Management Corporation;
Regional Development Corporation;
Service New Brunswick;
Sport Development Trust Fund.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

Government enterprises that have been included in these financial statements through modified equity accounting are:

Algonquin Golf Limited;
Lotteries Commission of New Brunswick;
New Brunswick Liquor Corporation;
New Brunswick Municipal Finance Corporation;
New Brunswick Power Corporation;
Workplace Health, Safety and Compensation Commission.

New Brunswick Hospital Corporations have been included in these financial statements using the equity method of accounting.

Certain organizations that are accountable to the Legislature have been included through the transaction method. The transaction method was used because the appropriate methods would not produce a materially different result. The determination of which entities could be excluded because of materiality was made by Board of Management. The organizations included through the transaction method are:

Advisory Council on the Status of Women;
Board of Commissioners of Public Utilities of New Brunswick;
Forest Protection Limited;
Kings Landing Corporation;
New Brunswick Crop Insurance Commission;
New Brunswick Museum;
New Brunswick Research and Productivity Council;
Premier's Council on the Status of Disabled Persons;
Provincial Holdings Ltd.;
Strait Crossing Finance Inc.;
Youth Council of New Brunswick.

b) Significant Accounting Policies

Accrual Accounting

Expenditures are recorded for all goods and services received during the fiscal year.

Revenue from Canada under the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act, 1977, and the Canada-New Brunswick Tax Collection Agreement is accrued based on estimates provided by Canada. These estimates are subject to adjustment in future years. Such adjustments are included in revenue when Canada informs the Province of the revisions. The most recent revision included in these financial statements is dated 10 November 1999.

All other revenues and recoveries are recorded on an accrual basis.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

Debt Charges

Interest and other debt service charges are reported in the Statement of Revenue and Expenditure as Service of the Public Debt except as described below:

> Because government enterprises are included in the Provincial Reporting Entity through modified equity accounting, the cost of servicing their debt is not included in the Service of the Public Debt expenditure. The cost of servicing the debt of government enterprises is an expenditure included in the calculation of their net profit or loss for the year.
>
> Interest costs imputed on the Province's Accrued Pension Liability are recorded as part of pension expense, which is included in various expenditure functions.

Interest earned on the assets of the General Sinking Fund and on other provincial assets is reported as revenue.

Note 13 to these financial statements reports the components of the Service of the Public Debt Expenditure function and total debt charges.

Government Transfers

Government transfers are transfers of money, such as grants, from a government to an individual, an organization or another government for which the government making the transfer does not receive any goods or services directly in return.

Government transfers are recognized in the Province's financial statements as expenditures or revenues in the period that the events underlying the transfer occurred. Liabilities have been established for any transfers due at 31 March 1999 for which the intended recipients have met the eligibility criteria. Receivables have been established for transfers to which the Province is entitled under governing legislation, regulation or agreement.

Physical Assets

The cost of acquiring physical assets is expensed in the year of acquisition. The Statement of Financial Position does not report an amount for these assets.

Short Term Investments

Short term investments are recorded at cost.

Allowances

Allowances have been established for accounts receivable, loan guarantees and other possible losses. These allowances are disclosed in the schedules to the financial statements. The increase in these allowances charged to operations for the fiscal year ended 31 March 1999 was $87.0 million ($43.7 million 1998).

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

Concessionary Loans

There are two situations where the Province charges loan disbursements entirely as expenditures. These are:

> Loan agreements which commit the Province to provide future grants to the debtor to be used to repay the loan.
>
> Loan agreements which include forgiveness provisions if the forgiveness is considered likely.

In both these situations, the loan is charged to expenditure when it is disbursed.

Loans that are significantly concessionary because they earn a low rate of return are originally recorded as assets at the net present value of the expected future cash flows. The net present value is calculated using the Province's borrowing rate at the time the loan was issued. The difference between the nominal value of the loan and its net present value is recorded as an expenditure.

Inventories

Inventories are recorded at the lower of cost or net realizable value. Inventories include supplies for use, and goods and properties held for resale. Properties held for resale include land and fixtures acquired or constructed for the purpose of sale. Properties held for resale also include properties acquired through foreclosure. Properties acquired through foreclosure which have not been disposed of within two fiscal year ends of repossession are removed from inventory and are recorded as expenditure.

Deferred Revenue

Amounts received or recorded as receivable but not earned by the end of the fiscal year are recorded as deferred revenue.

Deposits Held in Trust

Any funds remitted to the Province and held in trust for specified persons are included in both the financial assets and liabilities of the Province. Legally established trust funds which the Province administers but does not control are not included as Provincial assets or liabilities. Note 19 to these financial statements discloses the equity balances of the trust funds administered by the Province.

Borrowing on Behalf of New Brunswick Power Corporation

The Province, as represented by the Consolidated Fund, has issued long term debt securities on behalf of New Brunswick Power Corporation in exchange for debentures with like terms and conditions.

The New Brunswick Power Corporation debentures received by the Province are reported in the Statement of Financial Position as a reduction of Funded Debt. This financing arrangement was used to obtain more favourable debt servicing costs. The transactions involving these securities, including the debt servicing costs, are not part of the budget plan of the Province's Consolidated Fund.

Foreign Currency Translation

The Province's assets, liabilities and contingent liabilities denominated in foreign currencies are translated to Canadian dollars at the year end rates of exchange, except where such items have been hedged or are subject to interest rate and currency swap agreements. In such cases, the rates established by the hedge or the agreements are used in the translation. Revenue and expenditure items are translated at the rates of exchange in effect at the respective transaction dates.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

Exchange gains and losses are included in the Statement of Revenue and Expenditure except for the unrealized exchange gains and losses arising on the translation of long term items, which are deferred and amortized on a straight line basis over the remaining life of the related assets or liabilities.

Leases

Long term leases, under which the Province, as lessee, assumes substantially all the benefits and risks of ownership of leased property, are classified as capital leases although certain minimum dollar thresholds are in place for practical reasons. The present value of a capital lease is accounted for as an expenditure and an obligation at the inception of the lease.

All leases under which the Province does not assume substantially all the benefits and risks of ownership related to the leased property are classified as operating leases. Each rental payment required by an operating lease is recorded as an expenditure when it is due.

Measurement Uncertainty

Measurement uncertainty is uncertainty in the determination of the amount at which an item is recognized in financial statements. This uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount. Many items in these financial statements have been measured using estimates. Those estimates have been based on assumptions that reflect economic conditions.

Some examples of where measurement uncertainty exists are the establishment of allowances for doubtful accounts and the determination of pension expense.

NOTE 2 CHANGE IN ACCOUNTING POLICY

During the fiscal year ended 31 March 1999, the Province adopted the following accounting policies.

Harmonization Transitional Payment

During the fiscal year ended 31 March 1997, the Province received $364.0 million from Canada as a Harmonization Transitional Payment. The Province was recognizing this payment as revenue based on internal estimates of the annual fiscal impact caused by tax harmonization. The Province recognized $11.0 million during the fiscal year ended 31 March 1998. The Province is now recognizing this revenue according to the federal government's funding formula. The formula allocated the revenue as follows; 1998 - $132.0 million; 1999-$132.0 million; 2000 - $66.0 million; 2001 - $34.0 million.

Because the previous accounting treatment resulted in an audit qualification, the unrecorded amount of $121.0 million for the fiscal year ended 31 March 1998 and the entire $132.0 million allocation for the fiscal year ended 31 March 1999 have been recorded as revenue in the fiscal year ended 31 March 1999. The amount of Harmonization Transitional Payment recognized as revenue in the fiscal year ended 31 March 1999 was therefore $253.0 million, which is $164.0 million higher than would have been recognized under the previous method of accounting.

Low Interest Loans

Loans made by the Province that are significantly concessionary because they earn a low rate of return are carried as an asset at their net present value. The net present value is calculated by discounting the expected cash recoveries using the Province's borrowing rate at the time the loan was issued. The difference between the face value of the loan and its net present value is expensed as a grant. Previously these loans were carried as assets at their face value.

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As at 31 March 1999, the estimated value of the concessionary component of outstanding low interest loans was $18.0 million. Because no estimate was made of the value of the concessionary component at previous year ends, the entire $18.0 million was recorded as an expense in the fiscal year ended 31 March 1999.

Real Property Leases

The Province records all long term leases of real property under which the Province is lessee as capital leases in a manner that is consistent with its treatment of leases of other property. Previously real property leases were only considered capital if ownership of the real property transferred to the Province during the lease term or if the lease term was extremely long. This change, which was applied retroactively, increased the Province's Net Debt as at 1 April 1998 by $29.6 million. It also decreased the Province's deficit for the year ended 31 March 1999 by $0.5 million.

Service New Brunswick

Service New Brunswick's financial position and results of operations are included in the Province's financial statements using the consolidation method. In prior years, this organization was included using the transaction method. This decreased the Province's opening net debt as at 1 April 1998 by $2.2 million. It also decreased the Province's deficit for the year ended 31 March 1999 by $2.2 million.

Hospital Corporations

Hospital Corporations' financial position and results of operations are included in these financial statements using the equity method. In prior years, these corporations were included using the transaction method. This increased the Province's opening Net Debt at 1 April 1998 by $48.1 million. It also increased the Province's deficit for the year ended 31 March 1999 by $28.0 million.

NOTE 3 BUDGET

The budget amounts included in these financial statements are the amounts published in the Main Estimates, adjusted for transfers from the Supplementary Funding Provision Program and elimination of inter-account transactions. The Supplementary Funding Provision Program is an appropriation which provides funding to other programs for costs associated with contract settlements, retirement allowances, and other requirements not budgeted in a specific program.

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 4 BUDGET AND ACTUAL RESULTS BY BUDGETARY ACCOUNT

The Province budgets revenue and expenditure in five budgetary accounts: Ordinary, Capital, Special Purpose, Sinking Fund Earnings and Special Operating Agencies. Descriptions of each budgetary account as well as budget and actual results for each account are reported below.

a) Ordinary Account

Ordinary revenue includes most revenue raised through taxation, fees, fines, licenses, permits and payments from the federal government under various arrangements.

Ordinary expenditure includes the operating costs of government programs. These costs are considered to be consumed in the year of occurrence and are costs which are not funded from Special Purpose revenue or by Special Operating Agency authority.

		(millions)	
Ordinary Revenue by Department	1999 Budget	1999 Actual	1998 Actual
Agriculture and Rural Development	$ 3.3	$ 3.1	$ 3.1
Economic Development, Tourism and Culture	5.1	5.9	6.2
Education	16.1	19.6	21.9
Environment	1.3	1.3	1.3
Finance	3,616.1	3,945.1	3,595.1
Fisheries and Aquaculture	5.5	17.5	5.4
Health and Community Services	27.2	31.3	34.0
Human Resources Development - NB	9.3	13.5	5.6
Justice	36.6	35.4	33.7
Labour	89.5	86.4	56.7
Maritime Provinces Higher Education Commission	1.9	1.3	2.4
Municipalities and Housing	53.8	61.0	51.1
Natural Resources and Energy	71.2	77.9	77.4
Office of the Comptroller	—	0.1	0.1
Other Agencies	134.3	(311.1)	70.9
Regional Development Corporation	17.8	13.6	15.5
Solicitor General	10.6	9.6	11.2
Supply and Services	1.2	1.6	1.6
Transportation	75.1	77.3	74.1
Total Ordinary Revenue	4,175.9	4,090.4	4,067.3

NOTES TO THE FINANCIAL STATEMENTS
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Ordinary Expenditure by Department	1999 Budget	(millions) 1999 Actual	1998 Actual
Agriculture and Rural Development	$ 23.4	$ 23.3	$ 22.9
Economic Development , Tourism and Culture	47.5	53.0	43.9
Education	729.6	728.4	707.1
Environment	10.2	10.1	11.5
Executive Council	3.3	3.9	3.0
Finance	18.5	17.6	18.2
Fisheries and Aquaculture	10.9	11.4	12.4
General Government	120.1	100.5	93.7
Health and Community Services	1,315.9	1,387.8	1,299.6
Human Resources Development – NB	307.5	295.9	306.2
Intergovernmental and Aboriginal Affairs	2.1	2.0	1.4
Justice	29.6	30.1	26.9
Labour	126.5	120.7	86.6
Legislative Assembly	11.7	12.5	11.0
Maritime Provinces Higher Education Commission	158.9	159.4	165.7
Municipalities and Housing	192.9	200.2	193.1
Natural Resources and Energy	75.6	77.5	76.4
Office of the Comptroller	5.1	5.0	4.9
Office of the Premier	1.2	1.2	1.3
Regional Development Corporation	63.1	59.1	53.8
Service of the Public Debt	603.0	616.4	574.1
Solicitor General	71.2	75.5	71.2
Supply and Services	80.0	80.3	76.5
Transportation	131.4	143.0	141.8
Total Ordinary Expenditure	4,139.2	4,214.8	4,003.2
Surplus (Deficit) on Ordinary Account	$ 36.7	$ (124.4)	$ 64.1

b) Capital Account

Capital recoveries include entitlements and contributions from Canada for the construction, acquisition or major renovation of physical assets and proceeds received on disposal of government properties.

Expenditures are incurred to acquire or construct physical assets with expected lives of greater than one year. Physical assets include land, buildings, highways, bridges, wharves, ferries, vehicles and equipment. Certain minimum dollar thresholds have been established for practical reasons.

NOTES TO THE FINANCIAL STATEMENTS
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	1999 Budget	(millions) 1999 Actual	1998 Actual
Capital Recoveries by Department			
Agriculture and Rural Development	$ 1.0	$ 2.1	$ 2.7
Economic Development, Tourism and Culture	---	0.4	0.1
Health and Community Services	1.0	0.9	---
Municipalities and Housing	0.2	1.2	0.1
Natural Resources and Energy	---	—	0.1
Regional Development Corporation	4.8	7.1	6.1
Transportation	31.2	30.2	71.6
Total Capital Recoveries	38.2	41.9	80.7
Capital Expenditure by Department			
Agriculture and Rural Development	0.3	0.3	0.1
Economic Development, Tourism and Culture	2.6	2.5	1.5
Education	1.0	1.0	0.9
Environment	6.0	11.5	7.6
Health and Community Services	3.8	5.2	5.7
Municipalities and Housing	1.0	1.0	8.1
Natural Resources and Energy	—	62.5	—
Regional Development Corporation	10.7	10.9	13.8
Supply and Services	30.7	31.0	62.1
Transportation	196.2	199.3	237.1
Total Capital Expenditure	252.3	325.2	336.9
Net Capital Expenditure	$ 214.1	$ 283.3	$ 256.2

NOTES TO THE FINANCIAL STATEMENTS
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c) Special Purpose Account

Revenue is designated by donor request or legislation to be used for specific purposes. Expenditures are made for those designated purposes.

	1999 Budget	(millions) 1999 Actual	1998 Actual
Special Purpose Revenue by Department			
Agriculture and Rural Development	$ —	$ —	$ 0.2
Economic Development, Tourism and Culture	7.5	4.1	8.0
Education	4.8	8.5	5.0
Environment	14.5	14.9	14.6
Finance	0.5	1.1	2.6
Health and Community Services	3.5	2.1	1.1
Justice	0.5	0.5	0.3
Labour	—	3.1	1.0
Municipalities and Housing	3.2	5.8	14.5
Natural Resources and Energy	1.5	1.2	0.4
Solicitor General	1.9	2.0	1.8
Supply and Services	1.9	3.8	5.7
Transportation	0.5	0.5	0.5
Total Special Purpose Revenue	40.3	47.6	55.7
Special Purpose Expenditure by Department			
Agriculture and Rural Development	—	—	0.2
Economic Development, Tourism and Culture	7.3	6.0	6.1
Education	4.9	6.0	4.3
Environment	14.5	14.5	14.8
Finance	0.1	0.1	0.1
Health and Community Services	3.1	2.6	1.3
Justice	0.5	0.4	0.3
Labour	—	2.4	1.0
Municipalities and Housing	0.4	0.7	0.6
Natural Resources and Energy	1.4	0.7	0.2
Solicitor General	1.9	2.0	1.6
Supply and Services	1.5	3.1	4.4
Transportation	0.6	0.5	0.5
Total Special Purpose Expenditure	36.2	39.0	35.4
Surplus on Special Purpose Account	$ 4.1	$ 8.6	$ 20.3

d) Sinking Fund Earnings

Sinking Fund Earnings are the earnings of the Province's General Sinking Fund, reduced by the amount recognized by the New Brunswick Power Corporation. During the fiscal year ended 31 March 1999, total earnings were $246.7 million ($215.6 million in 1998), of which $20.1 million was recognized by the New Brunswick Power Corporation ($15.3 million in 1998).

	1999 Budget	(millions) 1999 Actual	1998 Actual
Sinking Fund Earnings	$ 192.6	$ 226.6	$ 200.3

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

e) Special Operating Agencies

Revenue may be generated by the Special Operating Agencies or from transfers from other budgetary accounts.

Expenditures are incurred by the agencies in delivering the programs they offer and may be of a capital or operating nature.

The New Brunswick Community College Special Operating Agency was created to administer the Province's community colleges.

The New Brunswick Integrated Justice Special Operating Agency was established to assist in managing the restructuring of justice administration.

The New Brunswick Safety Code Services Special Operating Agency is responsible for the enforcement of safety regulations affecting electrical, plumbing, elevating, boiler and pressure vessels, and gas installations.

The Regional Development Special Operating Agency exists to administer the projects under the Canada - New Brunswick Infrastructure Agreements, assist in administering the Rural Experience program and assist in administering several other grant programs of government.

The Vehicle Management Special Operating Agency exists to maintain the provincial fleet of vehicles and heavy equipment.

	(millions)		
Revenue by Special Operating Agency	1999 Budget	1999 Actual	1998 Actual
New Brunswick Community College	$ 75.7	$ 89.3	$ 85.3
New Brunswick Integrated Justice	—	—	1.1
New Brunswick Safety Code Services	3.0	4.0	3.6
Regional Development	20.4	29.8	60.0
Vehicle Management	64.5	61.5	62.7
Total Special Operating Agency Revenue	163.6	184.6	212.7
Expenditure by Special Operating Agency			
New Brunswick Community College	75.7	82.9	85.0
New Brunswick Integrated Justice	—	—	1.3
New Brunswick Safety Code Services	3.0	3.9	3.5
Regional Development	21.4	31.2	55.6
Vehicle Management	64.4	61.3	62.1
Total Special Operating Agency Expenditure	164.5	179.3	207.5
Surplus (Deficit) on Special Operating Agency Account	$ (0.9)	$ 5.3	$ 5.2

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

f) Adjustments on Consolidation

Some of the entities included in these financial statements were not included in the Province's budget on a consolidated basis. The previous tables report actual results, before consolidation adjustments, as compared to budget. Adjustments to the actual results reported in the previous tables are required to reflect these entities on a consolidated basis.

The adjustments required are as follow:

	(millions) 1999 Actual	1998 Actual
Revenue Consolidation Adjustments		
Algonquin Properties Limited	$ 6.8	$ 6.0
Kingsbrae Horticultural Garden Inc.	0.8	0.9
N.B. Agriexport Inc.	0.3	0.5
New Brunswick Investment Management Corporation	3.6	2.7
New Brunswick Highway Corporation	13.4	—
Service New Brunswick	38.6	33.0
	63.5	43.1
Expenditure Consolidation Adjustments		
Algonquin Properties Limited	6.1	6.6
Kingsbrae Horticultural Garden Inc.	0.8	1.0
N.B. Agriexport Inc.	0.2	0.4
New Brunswick Investment Management Corporation	3.7	2.7
New Brunswick Highway Corporation	13.4	—
Service New Brunswick	36.4	31.2
	60.6	41.9
Net Revenue on Consolidation	$ 2.9	$ 1.2

NOTES TO THE FINANCIAL STATEMENTS
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g) Reconciliation to Statement of Revenue and Expenditure

The following table reconciles the total actual results by budgetary account to the totals reported in the Statement of Revenue and Expenditure of the Province which is prepared on a consolidated basis. In combining the various budgetary accounts, inter-account transactions have been eliminated and the revenues approved as reductions from expenditure appropriations have been added back to expenditure and reflected as revenue.

(millions)

	1999		1998	
	Revenue	Expenditure	Revenue	Expenditure
Ordinary Account	$ 4,090.4	$ 4,214.8	$ 4,067.3	$ 4,003.2
Capital Account	41.9	325.2	80.7	336.9
Special Purpose Account	47.6	39.0	55.7	35.4
Sinking Fund Earnings	226.6	—	200.3	---
Special Operating Agencies	184.6	179.3	212.7	207.5
Revenues Netted Against Expenditure	13.2	13.2	9.1	9.1
Elimination of Inter-account Transactions	(181.4)	(181.4)	(194.8)	(194.8)
Adjustments on Consolidation	63.5	60.6	43.1	41.9
Total as Reported in Financial Statements	$ 4,486.4	$ 4,650.7	$ 4,474.1	$ 4,439.2

NOTE 5 BALANCING OF EXPENDITURE AND REVENUE

The Province's Balanced Budget Act requires that total expenditures not exceed total revenues for the period commencing 1 April 1996 and ending 31 March 2000.

That Act stipulates that any change made within the last fifteen months, or after completion of the period from 1 April 1996 to 31 March 2000 in relation to the official estimates by the Government of Canada for provincial entitlements under the Federal-Provincial Fiscal Arrangements and Federal Post-Secondary Education and Health Contributions Act or the Canada-New Brunswick Tax Collection Agreement, shall not be taken into account.

The cumulative difference as at 31 March 1999 between revenue and expenditure is as follows:

(millions)

	1998 Actual	1999 Actual
Cumulative Difference - Beginning of Year	$ 125.4	$ 187.1
Revenue	4,459.4	4,486.4
Less: Changes in Provincial Entitlements from Canada (Section 6(1)) after December 1998	—	(176.2)
Adjusted Revenue	4,459.4	4,310.2
Expenditure	4,397.7	4,650.7
Adjusted Surplus (Deficit) for the Year	61.7	(340.5)
Cumulative Difference - End of Year	$ 187.1	$ (153.4)

NOTES TO THE FINANCIAL STATEMENTS
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The financial statements for the fiscal year ended 31 March 1998 reported a surplus of $61.7 million. In these financial statements, the 31 March 1998 surplus has been restated to $34.9 million to reflect the adjustments disclosed in note 2. The Balanced Budget Act stipulates changes in accounting policy are not applied retroactively for the purpose of balancing revenue and expenditure. Therefore, the above table reports a surplus of $61.7 million for the year ended 31 March 1998.

NOTE 6 LOANS AND ADVANCES

In addition to establishing budgets for the classifications referred to in note 4 to these financial statements, the Province budgets disbursements and recoveries for loans and advances. The budgeted amounts and actual results for the year ended 31 March 1999, and the actual results for the year ended 31 March 1998 are as follows:

	(millions)		
	1999 Budget	1999 Actual	1998 Actual
Disbursements			
Agricultural Development Act	$ 7.3	$ 4.4	$ 2.9
Algonquin Properties Limited	1.2	1.2	1.0
Economic Development Act	45.0	22.2	44.7
Fisheries Development Act	8.0	4.5	3.8
Housing	6.2	6.3	1.9
Other	—	4.2	0.1
Total Disbursements	67.7	42.8	54.4
Recoveries			
Agricultural Development Act	0.7	0.9	0.5
Algonquin Properties Limited	—	0.5	—
Economic Development Act	5.8	23.6	15.0
Finance	0.7	0.7	0.7
Fisheries Development Act	4.4	3.3	5.4
Health	0.6	0.6	0.5
Housing	2.4	2.6	2.8
Other	0.1	0.1	0.1
Total Recoveries	14.7	32.3	25.0
Net Loans and Advances	$ 53.0	$ 10.5	$ 29.4

NOTE 7 SPECIAL PURPOSE ACCOUNTS

Special Purpose Account revenue earned but not spent accumulates as a surplus in that account and may be spent in future years for the purposes specified. At 31 March 1999, the accumulated surplus in all Special Purpose Accounts totaled $42.4 million ($33.8 million 1998). This total is recorded as a reduction in net debt.

The following table summarizes the change in the accumulated Special Purpose Account surplus.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

		(millions) 1999		
	1998 Accumulated Surplus	Revenue	Expenditure	Accumulated Surplus
Economic Development, Tourism and Culture				
Redevelopment of the Miramichi Region	$ 2.7	$ 3.3	$ 5.5	**$ 0.5**
Arts Development Trust Fund	0.8	0.7	0.4	**1.1**
Education				
Fred Magee Account	0.3	—	—	**0.3**
Self Sustaining Accounts	1.2	4.6	4.1	**1.7**
International Projects	0.6	3.8	1.9	**2.5**
Johann Wordel Account	0.1	—	—	**0.1**
New Brunswick Community College Scholarship Account	0.2	—	—	**0.2**
Environment				
Environmental Trust Fund	1.4	15.0	14.6	**1.8**
Finance				
Group Insurance Trust Fund	4.9	1.1	—	**6.0**
Strait Crossing Finance Inc.	—	0.1	0.1	**—**
Health and Community Services				
Hospital Liability Protection Account	0.9	1.4	1.9	**0.4**
Medical Research Assistance Account	3.2	0.2	0.2	**3.2**
Third Party Contributions	—	0.1	0.1	**—**
WHSCC Compensation	—	0.4	0.4	**—**
Justice				
Family Support	—	0.5	0.4	**0.1**
Labour				
International Projects	1.1	3.1	2.4	**1.8**
Municipalities and Housing				
CMHC Funding	13.8	5.2	0.2	**18.8**
Library Account	0.1	0.2	0.2	**0.1**
Sport Development Trust Fund	0.1	0.4	0.4	**0.1**
Natural Resources and Energy				
Wildlife Conservation	0.2	1.2	0.8	**0.6**
Solicitor General				
Municipal Police Assistance Account	0.1	0.7	0.7	**0.1**
Victim Services Account	0.4	1.3	1.3	**0.4**
Supply and Services				
Land Management Account	1.4	1.6	1.4	**1.6**
Public/Private Partnership Projects	0.1	0.1	—	**0.2**
Renovation of Old Government House	—	2.1	1.6	**0.5**
Transportation				
Suspended Driver - Alcohol Re-education Program	—	0.3	0.3	**—**
National Safety Code Agreement	0.2	0.2	0.1	**0.3**
	$ 33.8	$ 47.6	$ 39.0	**$ 42.4**

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 8 SPECIAL OPERATING AGENCIES

Special Operating Agency account revenue earned but not spent in any year, accumulates as a surplus in that account and may be spent in future years. As at 31 March 1999, the accumulated surplus in all Special Operating Agency accounts totaled $16.6 million ($11.3 million 1998). This total is recorded as a reduction in net debt. The following table summarizes the change in the accumulated Special Operating Agency surplus.

	(millions)			
	1998	1999		
	Accumulated Surplus	Revenue	Expenditure	Accumulated Surplus
Education				
New Brunswick Community College	$ 2.5	$ 89.3	$ 82.9	$ 8.9
Labour				
New Brunswick Safety Code Services	0.1	4.0	3.9	0.2
Regional Development Corporation				
Regional Development	7.0	29.8	31.2	5.6
Transportation				
Vehicle Management	1.7	61.5	61.3	1.9
	$ 11.3	$ 184.6	$ 179.3	$ 16.6

NOTE 9 OBLIGATIONS UNDER CAPITAL LEASES

The total future principal and interest payments for capital leases amount to $71.5 million ($74.6 million 1998). That amount includes $29.2 million ($29.7 million 1998) in principal and $42.3 million ($44.9 million 1998) in interest.

Minimum annual principal and interest payments in each of the next five years are as follows:

Fiscal Year	(millions)
1999-2000	$ 3.0
2000-2001	3.0
2001-2002	3.3
2002-2003	2.9
2003-2004	2.9

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 10 GOVERNMENT ENTERPRISES

A Government Enterprise is an organization accountable to the Legislative Assembly that has the power to contract in its own name, has the financial and operating authority to carry on a business, sells goods and services to customers outside the Provincial Reporting Entity as its principal activity, and that can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside the Provincial Reporting Entity.

The following is a list of Government Enterprises, and their fiscal year ends, which are included in the Provincial Reporting Entity as described in note 1 a) to these financial statements.

Algonquin Golf Limited	31-12-98
Lotteries Commission of New Brunswick (Lotteries)	31-03-99
New Brunswick Liquor Corporation (Liquor)	31-03-99
New Brunswick Municipal Finance Corporation (Municipal Finance)	31-12-98
New Brunswick Power Corporation (Power)	31-03-99
Workplace Health, Safety and Compensation Commission (WHSCC)	31-12-98

The following table presents condensed financial information of these Government Enterprises.

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(millions)

	Algonquin Golf Limited	Lotteries	Liquor	Municipal Finance	Power	WHSCC	Total
Assets							
Cash and Equivalents	$ —	$ —	$ 0.2	$ 0.8	$ 7.0	$ 482.9	$ 490.9
Receivables	—	6.6	1.2	4.0	191.0	67.8	270.6
Prepaids	—	—	0.4	—	3.0	—	3.4
Inventories	—	—	10.3	—	74.0	—	84.3
Deferred Charges	—	—	3.9	—	205.0	—	208.9
Fixed Assets	3.3	—	11.3	—	3,130.0	8.3	3,152.9
Other Assets	—	—	—	334.5	56.3	0.4	391.2
Total Assets	$ 3.3	$ 6.6	$ 27.3	$ 339.3	$3,666.3	$ 559.4	$4,602.2
Liabilities							
Short Term Loans	$ —	$ —	$ 2.5	$ —	$ 289.0	$ —	$ 291.5
Payables	0.2	—	6.2	4.1	212.0	10.8	233.3
Reserves	2.1	—	—	—	218.0	—	220.1
Long Term Debt	1.0	—	6.8	334.5	179.1	516.9	1,038.3
Debt Funded by the Province	—	—	—	—	2,765.9	—	2,765.9
Total Liabilities	3.3	—	15.5	338.6	3,664.0	527.7	4,549.1
Equity							
Retained Earnings	—	6.6	11.8	0.7	2.3	31.7	53.1
Total Equity	—	6.6	11.8	0.7	2.3	31.7	53.1
Total Liabilities and Equity	$ 3.3	$ 6.6	$ 27.3	$ 339.3	$3,666.3	$ 559.4	$4,602.2
Net Income							
Revenue	$ —	$ 86.9	$ 251.8	$ 25.2	$1,213.0	$ 143.0	$1,719.9
Expenses	—	(1.7)	(159.1)	(0.1)	(840.0)	(124.2)	(1,125.1)
Interest Expense	—	—	—	(25.1)	(346.0)	—	(371.1)
Extraordinary Item	—	—	—	—	(450.0)	—	(450.0)
Net Income	$ —	$ 85.2	$ 92.7	$ —	$ (423.0)	$ 18.8	$ (226.3)

During the year, NB Power recorded an extraordinary item of $450.0 million due to a decrease in the valuation of their assets.

The financial information of Government Enterprises is prepared according to generally accepted accounting principles, using accounting policies that are appropriate for the industry segment in which they operate. These accounting policies may not be consistent with accounting policies used by other member organizations of the Provincial Reporting Entity.

Because minor adjustments are required for timing differences, the net income amounts reported in the financial statements of government enterprises may vary slightly from the investment income reported in the Province's Statement of Revenue and Expenditure

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Algonquin Golf Limited

Algonquin Golf Limited was incorporated on 29 May 1998 under the New Brunswick Business Corporation Act. Its purpose is to re-develop and operate the golf course currently owned by Algonquin Properties Limited. The company is still in the development phase, and so it did not have any revenue or expenditure for the year ended 31 December 1998.

Lotteries Commission of New Brunswick

The Lotteries Commission of New Brunswick is a shareholder in Atlantic Lottery Corporation Inc. and in the Interprovincial Lottery Corporation. Atlantic Lottery Corporation Inc. is jointly owned by the four Atlantic Provinces and is responsible to develop, organize, undertake, conduct and manage lotteries in Atlantic Canada. Atlantic Lottery Corporation Inc. also markets and handles the products of the Interprovincial Lottery Corporation. The Interprovincial Lottery Corporation is a corporation jointly owned by the ten Canadian provinces.

New Brunswick Liquor Corporation

The New Brunswick Liquor Corporation was established under the New Brunswick Liquor Corporation Act. Its business activity is the purchase, distribution and sale of alcoholic beverages throughout the Province of New Brunswick.

New Brunswick Municipal Finance Corporation

The Municipal Finance Corporation was established under the New Brunswick Municipal Finance Corporation Act. Its purpose is to provide financing for municipalities and municipal enterprises through a central borrowing authority.

New Brunswick Power Corporation

The New Brunswick Power Corporation was established in 1920 under the Electric Power Act and is an agent of the Crown in right of the Province. The Corporation provides for the continuous supply of energy adequate for the needs and future development of the Province and promotes economy and efficiency in the distribution, supply, sale and use of power.

Workplace Health, Safety and Compensation Commission

The Workplace Health, Safety and Compensation Commission was established under the Workplace Health, Safety and Compensation Commission Act on 1 January 1995. It is responsible for administration of both the Occupational Health and Safety Act and the Worker's Compensation Act. The Workplace Health, Safety and Compensation Commission is dedicated to the promotion of a safe and healthy work environment and the provision of services to workplaces, employers and the injured workers of New Brunswick.

The Commission administers the payment of benefits to injured workers, levies and collects assessment revenues and invests funds. The net assets of the Commission and all assessments collected from employers can only be used for the purposes of the Commission.

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 11 BORROWING AUTHORITY

a) Balance of Borrowing Authority under the Provincial Loans Act

The balance of borrowing authority granted under the Provincial Loans Act is as follows:

	(millions) Balance 1998	Authority Granted During the Year	Borrowing During the Year	Balance 1999
Loan Act 1991	$ 5.5	$ —	$ —	$ 5.5
Loan Act 1996	233.4	—	233.4	—
Loan Act 1997	450.0	—	227.5	222.5
Loan Act 1998	—	520.0	—	520.0
	$688.9	$ 520.0	$ 460.9	$ 748.0

Under the authority of section 2 of the Provincial Loans Act, the maximum temporary indebtedness of the Province is $1,400.0 million. At 31 March 1999, bank advances and short term borrowing amounted to $281.1 million.

Under the authority of subsection 3(1) of the Provincial Loans Act, the Province may borrow sums required for the repayment, refinancing or renewal of securities issued or for the payment of any loan or liability, repayment of which is guaranteed by the Province. This authority is in addition to the authorities listed above.

b) Borrowing by the Municipal Finance Corporation

The New Brunswick Municipal Finance Corporation has authority under the New Brunswick Municipal Finance Corporation Act to provide financing for municipalities and municipal enterprises. As at 31 December 1998, long term debt owed by the corporation was $334.5 million.

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 12 FUNDED DEBT OUTSTANDING

The following is a maturity schedule for the total amount of the Province's Funded Debt.

		(millions)			
Fiscal Year of Maturity	Interest Rate (%) Range	Currency Amount	Total Funded Debt	Borrowing for NB Power Corporation	Funded Debt for Provincial Purposes
1999-2000	7.2-12.7	CAN $ 415.0	$ 415.0	(100.0)	$ 315.0
2000-2001	5.0	Yen 1,128.0	14.4	—	
	7.4	Sfr 130.0	132.9	—	
	7.6-13.4	CAN $ 626.8	626.8	(251.0)	
			774.1	(251.0)	523.1
2001-2002	5.0	Yen 1,128.0	14.4	—	
	9.3-17.5	CAN $ 575.6	575.6	(250.0)	
			590.0	(250.0)	340.0
2002-2003	7.1	US $ 257.0	387.9	(181.1)	
	5.0	Yen 1,128.0	14.4	—	
	8.0-16.5	CAN $ 823.8	823.8	(500.0)	
			1,226.1	(681.1)	545.0
2003-2004	5.0	Yen 1,128.0	14.4	—	
	7.4-12.1	CAN $ 330.9	330.9	(100.0)	
			345.3	(100.0)	245.3
2004-2005 & After	6.5-9.8	US $ 1,336.5	2,017.1	(815.0)	
	5.0	Yen 7,488.0	95.4	—	
	5.6	Sfr 100.0	102.2	—	
	5.4-14.1	CAN $4,645.9	4,645.9	(820.0)	
			6,860.6	(1,635.0)	5,225.6
Funded Debt before Sinking Fund Investments			10,211.1	(3,017.1)	7,194.0
Less: Sinking Fund Investments			2,944.4	(251.2)	2,693.2
Funded Debt Outstanding			$7,266.7	$(2,765.9)	$4,500.8

Pursuant to section 12 of the Provincial Loans Act, the Minister of Finance maintains a General Sinking Fund for the repayment of funded debt either at maturity or upon redemption in advance of maturity. At 31 March 1999, the equity of the General Sinking Fund accumulated for the repayment of Provincial Debt was $2,693.2 million ($2,440.0 million 1998). Some of the assets of this Fund are bonds and debentures issued or guaranteed by the Province of New Brunswick. The net book value of these investments at 31 March 1999 was $1,513.1 million ($1,375.3 million 1998).

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Because government enterprises are included in the reporting entity through modified equity accounting, long term debt issued directly by those enterprises is not included in the amount of Funded Debt Outstanding. Note 10 to these financial statements discloses the long term debt obligations of government enterprises.

The following amounts, which are payable swap agreements, have been included in the preceding funded debt maturity schedule. They have been reflected in that schedule in the currency payable per each financial swap agreement.

	(millions) 1999		
Fiscal Year of Maturity	Amount Payable in Original Currency	Amount Payable Per Financial Swap Agreement	Canadian Dollar Equivalent
2000-2001	US $ 15.6	CAN $ 23.8	$ 23.8
2002-2003	Yen 3,000.0	CAN $ 30.6	30.6
2003-2004	Yen 5,000.0	CAN $ 59.8	59.8
2004-2005	Yen 5,000.0	US $ 47.5	71.7
2004-2005	Yen 5,000.0	CAN $ 71.2	71.2
2004-2005	Yen 4,000.0	CAN $ 55.1	55.1
2004-2005	Yen 3,000.0	CAN $ 41.1	41.1
2006-2007	CAN $ 95.1	Sfr 100.0	92.9
			$446.2

All of the swap agreements are interest rate and currency swap agreements except the Sfr 100.0 issue due 2006-2007 which is a currency swap agreement only.

The following estimated payments are required in each of the next five years to meet the sinking fund provisions of existing debt.

Fiscal Year	(millions)
1999-2000	$107.1
2000-2001	102.4
2001-2002	94.9
2002-2003	88.7
2003.2004	79.2

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 13 DEBT CHARGES

The total provincial cost of interest, exchange, amortization and related expenses is $343.5 million ($363.8 million 1998), which consists of:

	(millions) 1999	1998
Interest	$ 827.4	$815.4
Interest on Capital Leases	2.6	1.3
Foreign Exchange Expense	47.0	19.7
Other Expenses	7.6	9.6
	884.6	846.0
Interest Recovery for Debt Incurred for the New Brunswick Power Corporation	(268.2)	(264.0)
Capitalization of Interest	—	(7.8)
Service of the Public Debt	616.4	574.2
Pension Interest Charged to Various Expenditure Functions	(46.3)	(10.1)
Sinking Fund Earnings	(226.6)	(200.3)
	$ 343.5	$ 363.8

NOTE 14 PENSION PLANS

a) Description

Employees of the Province and certain other entities, as well as members of the Legislative Assembly, are entitled to receive pension benefits. Pension funds distinct from the Consolidated Fund exist for each of these pension plans, except for the Members' Superannuation Plan, Members' Pension Plan and the Ombudsman Plan.

The following is a summary of contribution levels and basic member benefits for each pension plan.

Public Service Superannuation Plan (Public Service)

Employees are required to contribute 5.8% of their earnings, up to the year's maximum pensionable earnings under the Canada Pension Plan Act (YMPE), plus 7.5% on earnings above the YMPE. The Employer is required to contribute an amount necessary in the opinion of an actuary, which when combined with employee contributions will fund current service costs.

The basic pension benefit is 2.0% of the average annual salary during the highest paid continuous 5 year period integrated with the Canada Pension Plan, multiplied by the number of years pensionable service. Pension benefits are indexed annually to a maximum of 5%.

Normal retirement age is 65. Unreduced pension benefits are available upon reaching age 60 with 5 years pensionable service. Reduced benefits are available at age 55 with 5 years of pensionable service.

NOTES TO THE FINANCIAL STATEMENTS
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Teachers' Pension Plan (Teachers')

Employees are required to contribute 7.3% of their earnings up to YMPE plus 9% of earnings above the YMPE. The Employer makes contributions equal to the employee contributions.

The basic pension benefit is 2.0% of the average annual salary during the highest paid continuous 5 year period integrated with the Canada Pension Plan, multiplied by the number of years pensionable service. Pension benefits are indexed annually to a maximum of 4.75%.

Employees are eligible for unreduced pension benefits when the sum of their age and completed years pensionable service is 87 or more, they have a minimum of 35 years pensionable service or at age 65 with 5 years of pensionable service. Reduced benefits are available when the age and service total is 85, or at age 60 with 5 years of pensionable service.

Judges' Superannuation Plan (Judges')

Judges are required to contribute 5.8% of their earnings up to the YMPE plus 7.5% on earnings above the YMPE. The Employer contributes an amount necessary in the opinion of an actuary, which when combined with employee contributions will fund current service costs.

Pension benefits are equal to 60% of the final salary integrated with the Canada Pension Plan. Pension benefits are indexed annually to a maximum of 6%.

Mandatory retirement is at age 75. Unreduced benefits are available at age 60 with 25 years service or at age 65 with 10 years service.

Members' Superannuation Plan and Members' Pension Plan (Members')

a) The Members' Superannuation Plan applies to Members of the Legislative Assembly (MLA's) who were MLA's prior to the enactment of the Members' Pension Act.

MLA's are required to contribute 9% of the MLA's indemnity plus 6% of the Minister's salary (if a Minister). These contributions are credited to the Members' Superannuation Account within the Provincial Consolidated Fund. The Province contributes an amount equal to the excess of pension payments over member contributions, plus interest.

Basic pension equals 4.5% of the average indemnity during the last three years as a MLA multiplied by the number of pensionable sessions served. This cannot exceed the amount of the final year's sessional indemnity. There is an additional benefit for Ministers equal to 3% of the average Ministers' salary during the last three years multiplied by the years service as a Minister.

Members are eligible for benefits upon ceasing to be a MLA with at least 10 sessions of pensionable service.

b) Members of the Members' Pension Plan are required to contribute the lesser of the amount described under the Members' Superannuation Plan and the maximum deductible registered pension contributions under the Income Tax Act.

NOTES TO THE FINANCIAL STATEMENTS
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Basic pension equals 2% of the average indemnity received in the highest paid 3 continuous sessions of the Legislature multiplied by the number of pensionable sessions while a member. Ministers are eligible for an additional basic pension amount equal to 2% of the average Minister's salary multiplied by the years of service as a Minister. MLA's are eligible for a supplementary allowance of 125% of the basic pension amount. Ministers are eligible for an additional supplementary allowance equal to 50% of the basic Minister's pension amount.

Members are eligible for basic pension benefits at age 60 upon ceasing to be a MLA with at least 8 sessions of pensionable service. Eligibility for supplementary allowances commences at age 55 with at least 8 sessions of service upon ceasing to be a member.

Pension Plan for Canadian Union of Public Employees of New Brunswick Hospitals
(Hospitals - C.U.P.E.)

Employees are required to contribute 4.5% of their earnings up to the YMPE and 6% on the earnings above the YMPE. Employer contributes an amount necessary in the opinion of an actuary, which when combined with employee contributions will fund current service costs. The employer is currently on a contribution holiday.

Basic pension is 2.0% of the average annual salary during the highest paid continuous 5 year period integrated with the Canada Pension Plan, multiplied by the number of years pensionable service. Pension benefits are indexed annually according to the consumer price index increase to a maximum of 2%.

Normal retirement age is 65. Unreduced pension benefits are available at age 63 with 5 years continuous employment. Effective 1 April 1996 to 30 June 1999, members can retire at age 60 with 5 years continuous employment and receive an unreduced pension. Reduced benefits are available at age 55 with 5 years continuous employment.

Pension Plan for Management Employees of New Brunswick School Districts
(Schools - Management)

This plan is being curtailed. All former members have been given the option to transfer their benefits to the Public Service plan or to take a deferred pension from this plan.

There are no current contributors to the plan.

Basic pension equals 2.0% of average annual salary during the highest paid continuous 5 years integrated with the Canada Pension Plan, multiplied by the number of years pensionable service. Pension benefits are indexed annually according to the consumer price index increase to a maximum of 3%.

Normal retirement age is 65. Unreduced pension is available at age 60 with 5 years of pensionable service. Reduced benefits are available at age 55 with 5 years of pensionable service.

Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Districts
(Schools - G.L.T.& S.)

Employees are required to contribute 4.5% of their earnings up to the YMPE, plus 6% of earnings above the YMPE. Employer is required to contribute an amount that is not less than 95% of the employee contributions.

Basic pension equals 2.0% of average annual salary during the highest paid continuous 5 years integrated with the Canada Pension Plan, multiplied by the number of years pensionable service. Pension benefits are indexed annually according to the consumer price index increase to a maximum of 2%.

NOTES TO THE FINANCIAL STATEMENTS
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Normal retirement age is 65. Unreduced pension benefits are available at age 60 with 5 years continuous employment. Reduced benefits are available on retirement at age 55 with 5 years continuous employment. Bridging benefits are available for early retirement.

Pension Plan for Secretarial and Clerical Employees of New Brunswick School Districts (Schools - S. & C.)

Employees are required to contribute 4.5% of their earnings up to the YMPE, plus 6% of earnings above the YMPE. Employer currently contributes an amount equal to 95% of the employee contributions as recommended by an actuary.

Basic pension equals 2.0% of average annual salary during the highest paid continuous 5 years integrated with the Canada Pension Plan, multiplied by the number of years pensionable service. Pension benefits are indexed annually according to the consumer price index increase to a maximum of 2%.

Normal retirement is at age 65. Unreduced pension benefits are available at age 60 with 5 years continuous employment. Reduced benefits are available on retirement at age 55 with 5 years continuous employment.

Ombudsman Plan (Ombudsman)

The Province contributes the amount required to make annual pension payments. There are no current active members in this plan. All contributions are made to fund pension payments to retired Ombudsmen or their beneficiaries.

Basic pension to current recipients is the same as that for Federal Court judges.

Pension Plan for Certain Bargaining Employees of New Brunswick Hospitals (Hospitals - Certain)

Employees are required to contribute 5.185% of their earnings up to the YMPE, plus 6.61% of earnings above the YMPE. Employer makes contributions equal to the employee contributions.

Basic pension equals 2.0% of average annual salary during the highest paid continuous 5 years integrated with the Canada Pension Plan, multiplied by the number of years pensionable service. Pension benefits are indexed annually according to the consumer price index increase to a maximum of 4%.

Normal retirement is at age 65. Unreduced pension is available at age 60 with 5 years continuous employment. Reduced pension is available at age 55 with 5 years continuous employment.

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Pension Plan for Part-time and Seasonal Employees (Part Time)

This is a defined contribution plan. Eligible employees include part-time or seasonal employees of the Province, Hospital Corporations, and various government agencies. Participation in the plan is voluntary. Employees can contribute 2%, 3.25% or 4.5% of their earnings. The Employer makes contributions equal to the employee contributions. The employee can make additional contributions up to the overall contribution maximums under the Income Tax Act but these are not matched by the employer. Normal retirement age is 65.

Early Retirement / Workforce Adjustment Program (Early Retirement)

The Province has obligations under various early retirement initiatives. Under the most recent program offered, which expired at 31 March 1999, certain employees were eligible for special retirement provisions if their jobs were lost due to budget reductions or restructuring. Employees could retire as early as age 55 with an unreduced pension. In addition, they were eligible to purchase up to 3 years of pension credits at a cost of 5 weeks pay for every year purchased. If an employee retired before age 55, options to use retiring allowance or severance benefits to bridge to age 55 were also available.

b) Pension Liability

With the exception of the Hospitals - Certain plan which is a defined benefit plan with a fixed employer contribution, and the Part-Time plan, which is a defined contribution plan, the Province is liable for any excess of accrued pension benefits over pension fund assets. The Provincial share of the estimated pension liability for all pension plans is $772.6 million ($1,062.6 million 1998). This estimate is based on actuarial valuations using the projected unit credit method, calculated as at the dates listed below. This method estimates the present value of retirement benefits associated with the period of employee service to the valuation date. The actuarial valuations were based on a number of assumptions about future events, such as rates of return on assets, wage and salary increases and employee turnover and mortality. Section i) of this note lists some of the actuarial assumptions used. Section j) lists selected information about plan members.

The latest actuarial valuations for the Province's pension plans are dated as listed in the following table:

Plan	Date
Public Service	01/04/99
Teachers'	01/04/99
Judges'	31/03/92
Members'	01/04/96
Hospitals - C.U.P.E.	01/01/97
Schools – Management	01/01/93
Schools - G.L.T.&S.	01/01/97
Schools S.&C.	01/01/97
Ombudsman	—
Hospitals – Certain	—
Early Retirement	31/03/96

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Details of the pension liability are outlined in the following table. The estimated accrued benefits and the value of plan assets reported have been updated to the most recent year end of the applicable pension plan. This was based on a projection of the actuarial assumptions and on actual contribution levels. The plans for hospital and school district employees have 31 December year ends. All other plans have 31 March year ends.

Details of the unamortized adjustments and valuation allowances are disclosed in sections e), f), g) and h) of this note.

	(millions)					
	1999					1998
Plan	**Estimated Accrued Benefits**	**Value of Assets**	**Actuarial Pension Liability (Surplus)**	**Unamortized Pension Adjustments and Valuation Allowance**	**Pension Liability (Surplus)**	**Pension Liability (Surplus)**
Public Service	$ 2,499.3	$ 2,614.8	$ (115.5)	$ 329.9	$ 214.4	$ 321.2
Teachers'	2,481.6	2,525.3	(43.7)	533.0	489.3	630.6
Judges'	29.4	16.9	12.5	0.3	12.8	13.2
Members'	31.3	—	31.3	—	31.3	30.1
Hospitals – C.U.P.E.	175.4	333.3	(157.9)	104.5	(53.4)	—
Schools – Management	10.3	17.6	(7.3)	1.5	(5.8)	(5.8)
Schools - G.L.T.& S.	112.3	134.7	(22.4)	21.7	(0.7)	—
Schools - S.& C.	19.5	23.9	(4.4)	0.8	(3.6)	—
Early Retirement	63.8	—	63.8	—	63.8	62.3
	5,422.9	5,666.5	(243.6)	991.7	748.1	1,051.6
Allocated to NB Power	504.0	531.1	(27.1)	2.5	(24.6)	(11.0)
	$ 4,918.9	$ 5,135.4	$ (216.5)	$989.2	$ 772.7	$1,062.6

The value of assets in all plans exceeds the value of accrued benefits by $216.5 million at 31 March 1999. However, because the calculation of this excess includes estimates of future events and market values of assets, the Statement of Financial Position reports a liability of $772.7 million for accounting purposes. The difference of $989.2 million is being amortized over future years. This ensures that past improvements to the financial position of the plans are only recognized as evidence of their existence becomes reliable.

c) Funding

Pursuant to the Public Service Superannuation Act, the Consolidated Fund and certain government agencies will, in each fiscal year until the benefits under that Act are fully funded as determined by an actuarial valuation, pay an amount into the Public Service Superannuation Fund that is in addition to the employer contribution for current service costs. The additional amount paid during the fiscal year ended 31 March 1999 was $39.2 million as follows:

Consolidated Fund	$ 30.8
New Brunswick Liquor Corporation	0.5
New Brunswick Power Corporation	7.7
Workplace Health, Safety and Compensation Commission	0.2

In each subsequent fiscal year the additional amount to be paid will be the amount paid in the previous fiscal year increased (or decreased) by the aggregate of 2% plus the average percentage change in the Consumer Price Index.

NOTES TO THE FINANCIAL STATEMENTS
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Pursuant to the Teachers' Pension Act, the Province will, in each fiscal year until the benefits under that Act are fully funded as determined by an actuarial valuation, pay an amount into the Teachers' Pension Fund that is in addition to the employer contribution for current service costs. The additional amount paid during the fiscal year ended 31 March 1999 was $57.0 million. In each subsequent fiscal year the additional amount to be paid will be the amount paid in the previous fiscal year increased (or decreased) by the aggregate of 2% plus the average percentage change in the Consumer Price Index.

As at 31 March 1999 the Public Service plan was 104.6% funded and the Teachers' plan was 101.7% funded on an actuarial basis using the assumptions disclosed in this note. These are not the same assumptions used to determine funding contribution requirements. As of the most recent funding valuations, neither plan was fully funded on a funding basis.

d) Change in Pension Liability

The components of the change in pension liability are disclosed in the following table:

	(millions)						
Plan	Employers' Share of Pension Benefits Earned	Pension Interest	Amortization of Adjustments	Valuation Adjustment	Total Pension Expense	Employer Pension Contribution	Increase (Decrease) in Pension Liability
Public Service	$ 35.4	$ (29.0)	$ (41.7)	$ —	$ (35.3)	$ 71.5	$ (106.8)
Teachers'	28.1	(18.0)	(66.6)	—	(56.5)	84.8	(141.3)
Judges'	0.6	0.9	(0.1)	—	1.4	1.8	(0.4)
Members'	0.6	2.5	—	—	3.1	1.9	1.2
Hospitals - C.U.P.E.	2.6	(7.3)	(1.4)	16.4	10.3	63.7	(53.4)
Schools –Management	—	(0.4)	0.7	(0.3)	—	—	—
Schools - G.L.T.&S.	1.9	(4.2)	(3.1)	6.5	1.1	1.8	(0.7)
Schools – S. & C.	0.3	(0.8)	(0.4)	(2.3)	(3.2)	0.4	(3.6)
Ombudsman	0.2	—	—	—	0.2	0.2	—
Hospitals - Certain	8.8	—	—	—	8.8	8.8	—
Part Time	2.3	—	—	—	2.3	2.3	—
Early Retirement	0.3	5.2	—	—	5.5	4.0	1.5
	81.1	(51.1)	(112.6)	20.3	(62.3)	241.2	(303.5)
Allocated to NB Power	6.6	(4.8)	(0.4)	—	1.4	15.0	(13.6)
	$ 74.5	$ (46.3)	$ (112.2)	$ 20.3	$ (63.7)	$ 226.2	$ (289.9)

Total pension benefits of $165.5 million were earned by employees during the fiscal year. Employees contributed $79.5 million toward these benefits. The value of pension benefits charged to agencies was $11.5 million. The employers' share of pension benefits earned was $74.5 million.

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e) Experience Gains and Losses

Experience gains or losses are generally amortized to pension expense over the estimated average remaining service life of active contributors. The balance of experience gains on assets that arose prior to 1994 in the Public Service and Teachers' plans are being amortized over 5 years commencing in 1999. In addition, accelerated amortization has been taken on the experience gains and losses in the Schools – G.L.T.& S. and Schools – S.&C. plans, which when combined with accelerated amortization on the actuarial assumptions in those plans, offsets the amortization of plan amendments in 1999. The following table summarizes the experience gains or losses for each plan:

		(millions)			
Plan	**Estimated Average Remaining Service Life of Active Contributors (years)**	**31 March 1998 Unamortized Experience Gains**	**New Experience Gains (Losses)**	**Amortization of Experience Gains**	**31 March 1999 Unamortized Experience Gains (Losses)**
Public Service	16	$406.6	$(268.1)	$(24.7)	$113.8
Teachers'	14	504.1	(215.5)	(40.1)	248.5
Judges'	11	2.0	(1.6)	(0.1)	0.3
Hospitals - C.U.P.E.	15	56.2	1.5	(4.9)	52.8
Schools - G.L.T.&S.	13	26.3	(8.2)	(12.4)	5.7
Schools - S.&C.	16	2.6	(1.8)	(1.6)	(0.8)
Schools – Management	1	—	(0.7)	0.7	—
		997.8	(494.4)	(83.1)	420.3
Allocated to NB Power		59.1	(49.0)	(0.8)	9.3
		$938.7	$(445.4)	$(82.3)	$411.0

f) Changes to Actuarial Assumptions

Changes to actuarial assumptions are generally amortized to pension expense over the estimated average remaining service life of active contributors. Amortization of actuarial assumptions on the Schools – G.L.T.&S. and Schools – S.&C. plans have been accelerated so that when combined with accelerated amortization of experience gains and losses, it offsets plan amendments. The following table summarizes the value of estimation adjustments arising from changes to actuarial assumptions for each plan:

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Plan	Estimated Average Remaining Service Life of Active Contributors (years)	(millions)			
		31 March 1998 Unamortized Value of Changes to Assumptions	Value of New Changes to Assumptions	Amortization of Changes to Assumptions	31 March 1999 Unamortized Value of Changes to Assumptions
Public Service	16	$233.1	$—	$(17.0)	$216.1
Teachers'	14	311.0	—	(26.5)	284.5
Hospitals - C.U.P.E.	15	29.9	—	(2.4)	27.5
Schools - G.L.T.& S.	13	13.5	—	(13.5)	—
Schools - S. & C.	16	3.5	—	(3.5)	—
		591.0	—	(62.9)	528.1
Allocated to NB Power		—	(7.2)	0.4	(6.8)
		$591.0	$7.2	$(63.3)	$534.9

g) Amendments to Pension Plan Provisions

Amendments made to the various pension plans are being amortized to pension expense in the year the amendment is made. In the case of Hospitals – C.U.P.E., amendments are being amortized over the term of the collective agreement.

Plan	Amortization Period (years)	(millions)			
		31 March 1998 Unamortized Plan Amendments	Value of New Plan Amendments	Amortization of Plan Amendments	31 March 1999 Unamortized Plan Amendments
Hospitals - C.U.P.E.	3.5	$(7.3)	$ —	$5.9	$ (1.4)
Schools - G.L.T.&S.	1	—	(22.8)	22.8	—
Schools – S&C	1	—	(4.7)	4.7	—
		$ (7.3)	$ (27.5)	$ 33.4	$ (1.4)

h) Valuation Allowance

Pension surpluses for individual plans that exceed certain limits, have been reduced by valuation allowances. Details of the allowances are provided in the following table:

Plan	(millions) 31 March 1999 Valuation Allowance
Hospitals – C.U.P.E.	$25.6
Schools – Management	1.5
Schools - G.L.T.&S.	16.0
Schools - S. & C.	1.6
	$44.7

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

i) Actuarial Assumptions

Calculation of the Province's employee pension obligations and related pension expenditure is based on long and short term actuarial assumptions except the Judges' Plan where only long term assumptions are used. The short term period spans the years 1997 to 2001 and the long term covers the years thereafter.

The tables below disclose the long term assumptions and the range of short term assumptions used in the actuarial valuations.

Long Term Assumptions

Plan	Rate of Return on Assets (%)	Annual Wage and Salary Increase (%)	Inflation (%)	Rate of Pension Escalation after Retirement (%)
Public Service	8.42	4.50 plus promotional increase between 0.20 and 1.00	4.00	3.70
Teachers'	8.42	4.50 plus promotional increase between 0.25 and 1.50	4.00	3.60
Judges'	8.16	5.25	4.50	4.00
Hospitals - C.U.P.E.	8.42	4.50	4.00	2.00
Schools – Management	8.16	4.75	4.00	2.00
Schools - G.L.T.&S.	8.42	4.50	4.00	2.00
Schools - S.&C.	8.42	4.50	4.00	2.00
Members'	8.16	4.75	4.00	4.00

Short Term Assumptions

Plan	Rate of Return on Assets (%)	Annual Wage and Salary Increase (%)	Inflation (%)	Rate of Pension Escalation after Retirement (%)
Public Service	8.42	2.0 to 4.5	2.0 to 3.0	2.0 to 3.7
Teachers'	8.42	2.0 to 4.5	2.0 to 3.0	2.0 to 3.6
Judges'	8.16	5.25	4.5	4.0
Hospitals - C.U.P.E.	8.42	2.0 to 4.5	2.0 to 3.0	2.0
Schools – Management	6.08 to 7.64	1.5 to 4.0	2.0 to 3.5	2.0
Schools - G.L.T.&S.	8.42	2.0 to 4.5	2.0 to 3.0	2.0
Schools - S.&C.	8.42	2.0 to 4.5	2.0 to 3.0	2.0
Members'	6.08 to 7.64	0.0 to 4.0	2.0 to 3.5	2.0 to 3.5

These assumptions have been used to determine the amount of the Province's obligation for pension benefits outstanding and the value of benefits earned by employees during the fiscal year. Different assumptions have been used to determine the appropriate level of employee and employer contributions needed to fund the estimated cost of the pension plans.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

j) Member Data

The following table lists data about the members of each plan.

Plan	Number of Active Contributors	Number of Pensioners	Average Annual Salary of Contributors	Average Annual Pension
Public Service	16,416	7,810	$ 39,749	$ 13,832
Teachers'	8,488	5,029	46,999	25,856
Judges'	25	30	125,382	39,480
Hospitals - C.U.P.E.	3,983	1,458	24,033	5,964
Schools – Management	—	57	—	11,673
Schools - G.L.T.& S.	1,923	850	22,757	6,466
Schools - S.&C.	487	96	22,774	3,883
Members'	55	80	37,624	29,794

Ministers earn an additional average salary of $33,595.

NOTE 15 CONTINGENT LIABILITIES

a) Legal Action

Blue Cross of Atlantic Canada, Healthcorp Systems Inc. and Medicorp Inc. have filed suit against the Province claiming damages for breach of contract, breach of fiduciary duty, negligence and misrepresentation resulting from the termination of a project to develop, deliver and operate a new, state-of-the-art computerized information system for the Province's medicare program. Blue Cross alleges that it has already suffered losses of $35.3 million and is claiming these losses plus other unquantified general, aggravated, punitive and exemplary damages, interest and costs.

The Province has denied the claims and counterclaimed for damages for breach of contract alleging that Blue Cross failed to deliver the system contracted for and that, as a result of this failure, the Province has suffered substantial losses and will continue to suffer such losses in the future. The Province alleges that as at 30 April 1998 it had already suffered losses of at least $9.4 million and claimed those losses plus general damages for unquantified losses of healthcare cost savings, interest and costs.

In the view of the Province, a view that its legal counsel consider to be reasonable, neither the likelihood of success nor the amount of any potential recovery of liability is at this point reasonably determinable. Therefore no amount has been accrued in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

b) Guaranteed Loans

The Province has guaranteed certain debt of entities external to the Provincial Reporting Entity under the authority of various statutes. At 31 March 1999, the total contingent liability in respect of these guarantees was $80.8 million ($56.4 million 1998), of which the Province has recognized $16.3 million as a liability in the Statement of Financial Position ($11.0 million 1998).

	(millions) Authorized Limit	Contingent Liability
Adult Education and Training Act	$ 0.3	$ 0.3
Agricultural Development Act	1.6	0.8
Economic Development Act	62.2	57.4
Employment Development Act	3.6	3.3
Fisheries Development Act	5.9	2.9
Livestock Incentives Act	0.6	0.6
Nursing Homes Act	11.3	11.3
Regional Development Corporation Act	4.2	4.2
		80.8
Less: Allowance for Losses on Guaranteed Loans		16.3
		$ 64.5

c) Environmental Responsibility

The Province of New Brunswick has an agreement with a mining company to limit the liability of the company to $3.0 million for environmental damages that occurred prior to the company commencing mining at a specified site. The cost to clean up the major problem area of this site has been estimated at $3.0 million. The Province currently holds a performance bond for $1.3 million from this company relating to this clean up and additional security by way of insurance bonds and cash of $1.1 million for other environmental damage at the site.

N.B. Coal (a wholly owned subsidiary of New Brunswick Power Corporation) has an environmental responsibility to treat acidic water drainage from an inactive mine. Cost of treatment for the fiscal year ended 31 March 1999 was $0.5 million ($0.5 million 1998).

d) Insurance

The Province does not carry general liability insurance or property insurance on its assets except in a few limited instances. Any successful liability claims against the Province and any replacement of lost or damaged property are charged to expenditure in the year of settlement or replacement.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

NOTE 16 COMMITMENTS

a) Operating Leases

Space and Equipment Rental

The total future minimum payments under various operating lease agreements, including those of government enterprises, for the rental of space and equipment amounts to $233.1 million ($193.1 million 1998). Minimum annual lease payments in each of the next five years are as follows:

Fiscal Year	(millions)
1999-2000	$ 36.5
2000-2001	29.7
2001-2002	24.9
2002-2003	21.4
2003-2004	17.6

Fredericton-Moncton Highway

In January 1998, the Province, through the New Brunswick Highway Corporation (NBHC) entered into agreements with a private sector consortium and the New Brunswick (F-M) Project Company Inc., a not-for-profit company, to develop, design, build, operate, manage, maintain and rehabilitate a four lane toll highway between Longs Creek and Moncton. Total capital costs of the project including construction financing are estimated to be $863.8 million.

NBHC will lease land it owns to the New Brunswick (F-M) Project Company Inc. which will own all improvements to these lands, in particular the four lane toll highway, and sublease the improvements back to NBHC. NBHC is responsible for making the sublease payments to the New Brunswick (F-M) Project Company Inc. Under these agreements NBHC will be required to make total lease payments of approximately $1,512.7 million, including principal and interest. This amount will be paid through 49 equal semi-annual payments estimated to be $30.9 million, starting in the fiscal year 2003-2004. However, accrual for the annual lease cost will begin once the highway is completed to the stage of full traffic availability.

Fredericton North High School

On 22 July 1998 the Province entered into a Development Agreement with Diamond Construction (1961) Limited, to construct and finance the Fredericton North High School in Fredericton.

The facility will be owned, operated and maintained by Diamond Construction (1961) Limited. The Province executed a Lease and Operations Agreement on 1 September 1999 for a term of twenty-five years commencing on 1 September 1999. The total cost for the Lease and Operations Agreement will be approximately $46.5 million. The Province will have the option, at the end of twenty years, to either purchase the facility at a cost of $14.8 million or to continue to lease for the remaining five years of the Lease term. These amounts have not been included in the future minimum lease payments under operating leases described in Note 16(a).

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

b) Nursing Homes

The Department of Health and Community Services includes in its annual operating budget funding for the repayment of approved long term debt of certain nursing homes. The Department funds the nursing homes through grants which pay the difference between operating expenses and revenue from other sources. On average, revenue from other sources covers approximately 35% of operating costs.

Total long term debt of these nursing homes at 31 March 1999 amounted to approximately $74.0 million ($75.3 million 1998). Of the $74.0 million nursing home debt, the Province has issued guarantees totalling approximately $11.3 million ($11.6 million 1998) which is included as a contingent liability.

c) Authorized Capital Projects

The 31 March 1999 estimated amount required to complete authorized major construction projects of schools, hospitals, other buildings, roads and bridges, and to meet capital grant obligations is $55.2 million ($77.8 million 1998). This includes projects that will be cost shared with the Government of Canada. Most of these projects are expected to be completed within three years.

d) Other Commitments

Human Resources Development - New Brunswick

The Province, through the Department of Human Resources Development - New Brunswick, has entered into a public-private partnership with Andersen Consulting to develop and implement business processes which make use of information technology. This arrangement is expected to result in cost savings for the Province. Andersen Consulting will be repaid for their investment in this project only if adequate savings are realized. The total repayable project investment by Andersen Consulting is estimated to be $15.5 million plus financing charges.

During the fiscal year ended 31 March 1999 benefits of $8.3 million were identified and accrued. The total accumulated benefits accrued to date are $12.5 million. Sufficient benefits needed to repay Andersen Consulting are expected to accrue over the next two years. Operation and maintenance of the technology used in this project have been contracted separately.

NOTE 17 UNCERTAINTY DUE TO THE YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after 1 January 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect the Province's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the Province, including those related to the efforts of suppliers or other third parties, will be fully resolved.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

NOTE 18 EXPENDITURE BY PRIMARY CLASSIFICATION

The expenditures by primary classification are as follows:

	(millions) 1999	1998
Personal Services	$ 985.2	$ 1,000.0
Other Services	403.5	371.0
Materials and Supplies	114.0	129.6
Property and Equipment	286.5	263.3
Contributions, Grants and Subsidies to or on behalf of:		
Hospitals	664.0	638.8
Municipalities and Local Service Districts	150.8	151.0
Individuals	800.3	761.3
Nursing Homes	106.4	104.2
Other	417.6	354.5
Debt and Other Charges	722.4	665.5
	$4,650.7	$4,439.2

Personal Services includes salaries and benefits of employees, and allowances paid to the members of the Legislative Assembly. Personal Services does not include salaries and benefits of employees of hospitals and other agencies, which are paid by those organizations. Funding provided to those organizations is recorded as Contributions, Grants and Subsidies.

Other Services includes the purchase of various services including rental of space, postage, advertising, professional services, Royal Canadian Mounted Police services and travel expenses.

Materials and Supplies includes the purchase of textbooks, office supplies, heating fuel, vehicle and equipment supplies and parts, and structural materials and supplies.

Property and Equipment includes the purchase and construction of buildings, roads, bridges, equipment, and office furniture.

Contributions, Grants and Subsidies includes payments to government corporations, agencies and boards, and to business entities and non-profit organizations. Contributions, Grants and Subsidies to or on behalf of individuals includes income assistance payments and medical service payments on behalf of individuals. Contributions, Grants and Subsidies to Hospitals includes both grants provided to Hospitals, and the unfunded deficits of Hospitals.

Debt and Other Charges includes the cost of servicing the public debt and bad debt expenses.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

NOTE 19 TRUST FUNDS

The Province is trustee for various trust funds outside the Provincial Reporting Entity.

The following is a summary of the trust fund equities calculated using the method indicated below to value investment assets:

	(millions)	
	1999	1998
Cost Method:		
Margaret R. Lynds Bequest	$ 0.1	$ 0.1
Mental Health Trust Fund	0.6	0.6
New Brunswick Power Corporation Sinking Fund	110.1	152.6
Viscount Bennett Bequest	0.2	0.2
	$111.0	$ 153.5
Market Value Method:		
Judges' Superannuation Trust Fund	$ 16.9	$ 16.4
Pension Plan for the Management Employees Of New Brunswick School Boards	13.4	17.2
Pension Plan for General Labour, Trades and Services Employees of New Brunswick School Boards	134.7	126.6
Pension Plan for Secretarial and Clerical Employees Of New Brunswick School Boards	23.9	21.4
Pension Plan for C.U.P.E. Employees of New Brunswick Hospitals	270.1	251.2
Public Service Superannuation Fund	2,614.8	2,634.4
Teachers' Pension Trust Fund	2,525.3	2,533.9
	$5,599.1	$5,601.1

The Margaret R. Lynds Bequest is used to award three annual scholarships of equal value to students pursuing the study of communications at specified universities. The Mental Health Trust Fund is used to pay for psychoanalysis treatment of deserving New Brunswick residents. The income from the Viscount Bennett Bequest is used to develop the Province's historic resources.

The New Brunswick Power Corporation Sinking Fund is held in trust under the authority of the Electric Power Act. New Brunswick Power Corporation makes payments to this sinking fund as required by the terms of any bond or debenture issues. These are retained and invested. The purpose of the fu[illegible]s to repay the bonds or debentures when they mature.

NOTES TO THE FINANCIAL STATEMENTS
31 March 1999

NOTE 20 CHANGE IN PROVINCIAL BORROWING

The Province's funded debt issued for Provincial purposes increased $255.7 million during the year (increased $77.5 million in 1998), after deducting the value of the sinking fund. Bank Advances and Short Term Borrowing decreased by $13.3 million ($19.1 million in 1998). Total borrowing was therefore $242.4 million higher at 31 March 1999 than it was at 31 March 1998.

The following table shows how total borrowing increased $242.4 million.

	(millions) 1999	1998
Surplus (Deficit)	$ (164.3)	$ 34.9
Decrease in Pension Liability	(289.9)	(189.1)
Increase (Decrease) in Deferred Revenue	(245.7)	(20.9)
(Increase) Decrease in Investments, Loans and Advances	413.9	(15.8)
Increase (Decrease) in Obligations under Capital Leases	(0.5)	19.7
Decrease (Increase) in Other Current Assets and Liabilities	149.5	122.3
Decrease (Increase) in Borrowing Before Foreign Exchange Adjustments	(137.0)	(48.9)
Foreign Exchange Adjustments	(105.4)	(9.3)
(Increase) Decrease in Borrowing	$(242.4)	$ (58.2)

The following changes in Other Current Assets and Liabilities had an affect on the Province's Working Capital position. In the table below, bracketed figures indicate an increase in Working Capital.

	(millions) 1999	1998
Accounts and Interest Receivable	$ (121.1)	$ (8.4)
Taxes Receivable	(25.5)	4.1
Inventories	0.6	45.1
Prepaid and Deferred Charges	8.2	(12.5)
Accounts Payable	156.9	(22.5)
Accrued Expenditures	38.9	77.3
Deposits Held in Trust	2.9	5.6
Decrease (Increase) in Working Capital	60.9	88.7
Increase in Allowance for Doubtful Accounts	87.0	43.7
Decrease (Increase) in Premiums and Discounts on Issue of Debt	1.6	(10.1)
Decrease (Increase) in Other Current Assets and Liabilities	$ 149.5	$122.3

NOTE 21 COMPARATIVE FIGURES

Prior year figures have been restated because of the changes in accounting policy disclosed in note 2. Certain other figures for the prior year have also been restated to conform with the 1999 presentation of the financial statements.

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SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 1
ACCOUNTS AND INTEREST RECEIVABLE

	(millions)	
	1999	1998
Accounts Receivable		
Canada - Conditional Grants		
Atlantic Freight Transition Program	$ 0.8	$ 4.5
Canada Assistance Plan	---	0.7
Canada Mortgage and Housing Corporation	29.9	28.9
Canada/New Brunswick Highway Improvement Program	15.0	0.8
Disaster Financial Assistance Program	21.7	2.8
Regional Economic Development Agreement	5.5	3.4
Infrastructure Program	0.7	1.4
Official Languages in Education Program	9.4	5.1
Refund of Harmonized Sales Tax Paid	13.0	10.5
Vocational Rehabilitation of Disabled Persons	0.9	4.7
Young Offenders Act	1.1	0.4
Other Agreements	4.7	2.8
Canada - Unconditional Grants		
Fiscal Equalization	95.3	---
Receivables of Government Departments		
Economic Development, Tourism and Culture	3.7	2.6
Education	12.7	14.2
Finance	11.8	13.8
Health and Community Services	19.3	20.1
Human Resources Development - NB	23.4	19.7
Justice	8.3	7.9
Labour	1.7	6.0
Municipalities and Housing	40.9	42.7
Natural Resources and Energy	3.1	8.8
Supply and Services	3.9	3.7
Transportation	7.0	10.7
Other Departments	4.6	4.3
Guarantee Payouts	32.0	29.8
Working Capital Advances	7.8	8.2
Other	4.2	4.3
Interest Receivable		
Agricultural Development Act	0.9	0.5
Economic Development Act	3.5	4.3
Fisheries Development Act	20.3	18.8
Other	2.0	1.6
	409.1	288.0
Less: Allowance for Doubtful Accounts	77.8	69.7
	$ 331.3	$ 218.3

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 2
TAXES RECEIVABLE

	(millions) 1999	1998
Gasoline and Motive Fuels Tax	$ 15.1	$ 13.9
Real Property Tax	307.9	294.8
Royalties and Stumpage on Timber	21.3	11.5
Sales Tax	83.7	83.3
Tobacco Tax	5.3	4.4
Other	0.3	0.2
	433.6	408.1
Less: Allowance for Doubtful Accounts	84.8	52.9
	$ 348.8	$ 355.2

SCHEDULE 3
INVENTORIES

	1999	1998
Construction and Maintenance Materials	$ 9.2	$ 9.4
Educational Textbooks	2.1	2.2
Machine Repair Parts	5.3	5.3
Properties Held for Sale	4.6	5.2
Stationery and Supplies	1.2	1.1
Veterinary Supplies	0.6	0.7
Other Supplies	3.2	3.0
	$ 26.2	$ 26.9

SCHEDULE 4
PREPAID AND DEFERRED CHARGES

	1999	1998
Unamortized Premiums, Discounts, and Issue Expenses on Debentures	$ 50.8	$ 52.3
Other	14.3	22.5
	$ 65.1	$ 74.8

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 1
ACCOUNTS AND INTEREST RECEIVABLE

	(millions)	
	1999	1998
Accounts Receivable		
Canada - Conditional Grants		
Atlantic Freight Transition Program	$ 0.8	$ 4.5
Canada Assistance Plan	---	0.7
Canada Mortgage and Housing Corporation	29.9	28.9
Canada/New Brunswick Highway Improvement Program	15.0	0.8
Disaster Financial Assistance Program	21.7	2.8
Regional Economic Development Agreement	5.5	3.4
Infrastructure Program	0.7	1.4
Official Languages in Education Program	9.4	5.1
Refund of Harmonized Sales Tax Paid	13.0	10.5
Vocational Rehabilitation of Disabled Persons	0.9	4.7
Young Offenders Act	1.1	0.4
Other Agreements	4.7	2.8
Canada - Unconditional Grants		
Fiscal Equalization	95.3	---
Receivables of Government Departments		
Economic Development, Tourism and Culture	3.7	2.6
Education	12.7	14.2
Finance	11.8	13.8
Health and Community Services	19.3	20.1
Human Resources Development - NB	23.4	19.7
Justice	8.3	7.9
Labour	1.7	6.0
Municipalities and Housing	40.9	42.7
Natural Resources and Energy	3.1	8.8
Supply and Services	3.9	3.7
Transportation	7.0	10.7
Other Departments	4.6	4.3
Guarantee Payouts	32.0	29.8
Working Capital Advances	7.8	8.2
Other	4.2	4.3
Interest Receivable		
Agricultural Development Act	0.9	0.5
Economic Development Act	3.5	4.3
Fisheries Development Act	20.3	18.8
Other	2.0	1.6
	409.1	288.0
Less: Allowance for Doubtful Accounts	77.8	69.7
	$ 331.3	$ 218.3

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 2
TAXES RECEIVABLE

	1999 (millions)	1998 (millions)
Gasoline and Motive Fuels Tax	$ 15.1	$ 13.9
Real Property Tax	307.9	294.8
Royalties and Stumpage on Timber	21.3	11.5
Sales Tax	83.7	83.3
Tobacco Tax	5.3	4.4
Other	0.3	0.2
	433.6	408.1
Less: Allowance for Doubtful Accounts	84.8	52.9
	$ 348.8	$ 355.2

SCHEDULE 3
INVENTORIES

	1999	1998
Construction and Maintenance Materials	$ 9.2	$ 9.4
Educational Textbooks	2.1	2.2
Machine Repair Parts	5.3	5.3
Properties Held for Sale	4.6	5.2
Stationery and Supplies	1.2	1.1
Veterinary Supplies	0.6	0.7
Other Supplies	3.2	3.0
	$ 26.2	$ 26.9

SCHEDULE 4
PREPAID AND DEFERRED CHARGES

	1999	1998
Unamortized Premiums, Discounts, and Issue Expenses on Debentures	$ 50.8	$ 52.3
Other	14.3	22.5
	$ 65.1	$ 74.8

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

(millions)

SCHEDULE 5
LOANS AND ADVANCES

	1999			1998		
	Amount	Allowance for Doubtful Accounts	Net	Amount	Allowance for Doubtful Accounts	Net
Agriculture and Rural Development						
Agricultural Development Act	$ 14.6	$ 5.7	$ 8.9	$ 11.2	$ 5.3	$ 5.9
Economic Development, Tourism and Culture						
Economic Development Act	103.1	38.2	64.9	115.9	19.8	96.1
Provincial Holdings Ltd.	22.1	10.2	11.9	21.9	10.3	11.6
Miramichi Redevelopment	0.5	---	0.5	---	---	---
Education						
Loans to Students	0.2	0.2	---	0.2	0.2	---
Environment						
Water and Sewerage Systems	0.4	---	0.4	0.4	---	0.4
Executive Council						
La Fondation du quotidien francophone	4.0	4.0	---	4.0	---	4.0
Finance						
Municipalities - Department of Regional Industrial Expansion Agreements	3.1	0.6	2.5	3.8	0.6	3.2
Fisheries and Aquaculture						
Fisheries Development Act	71.8	61.7	10.1	71.5	42.6	28.9
Health and Community Services						
Saint John Regional Laundry	0.6	---	0.6	1.1	---	1.1
Municipalities and Housing						
Loans to Municipalities	0.1	---	0.1	0.2	---	0.2
New Brunswick Housing Act	20.8	2.9	17.9	21.0	3.0	18.0
Other Loans	0.2	0.2	---	0.2	0.2	---
Regional Development Corporation						
Fundy Trail Trust	2.8	---	2.8	5.0	---	5.0
Solicitor General						
City of Moncton	3.0	---	3.0	---	---	---
Supply and Services						
Other Loans	0.1	---	0.1	0.1	---	0.1
Transportation						
Unsatisfied Judgements	9.5	9.5	---	9.5	9.5	---
	$ 256.9	$ 133.2	$ 123.7	$ 266.0	$ 91.5	$ 174.5

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 6
INVESTMENTS

	(millions) 1999	1998
Investment in Government Enterprises		
Lotteries Commission of New Brunswick	$ 6.6	$ 7.7
New Brunswick Liquor Corporation	11.1	10.9
New Brunswick Municipal Finance Corporation	0.7	0.7
New Brunswick Power Corporation	2.3	425.3
Workplace Health, Safety and Compensation Commission	31.7	12.8
	52.4	457.4
Other Long Term Investments	3.5	3.3
	$ 55.9	$ 460.7

SCHEDULE 7
BANK ADVANCES AND SHORT TERM BORROWING

	1999	1998
Bank Overdrafts	$ 132.1	$ 75.7
Treasury Bill 0% Maturing 10 March 2000	1.0	1.0
Treasury Bills 4.78% - 5.75% Maturing 6 April 1999 - 1 November 1999	581.0	849.6
	714.1	926.3
Less:		
Cash	30.3	54.8
Short Term Investments	402.7	577.1
	433.0	631.9
	$ 281.1	$ 294.4

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

(millions)

SCHEDULE 5
LOANS AND ADVANCES

	1999			1998		
	Amount	Allowance for Doubtful Accounts	Net	Amount	Allowance for Doubtful Accounts	Net
Agriculture and Rural Development						
Agricultural Development Act	$ 14.6	$ 5.7	$ 8.9	$ 11.2	$ 5.3	$ 5.9
Economic Development, Tourism and Culture						
Economic Development Act	103.1	38.2	64.9	115.9	19.8	96.1
Provincial Holdings Ltd.	22.1	10.2	11.9	21.9	10.3	11.6
Miramichi Redevelopment	0.5	—	0.5	—	—	—
Education						
Loans to Students	0.2	0.2	—	0.2	0.2	—
Environment						
Water and Sewerage Systems	0.4	—	0.4	0.4	—	0.4
Executive Council						
La Fondation du quotidien francophone	4.0	4.0	—	4.0	—	4.0
Finance						
Municipalities - Department of Regional Industrial Expansion Agreements	3.1	0.6	2.5	3.8	0.6	3.2
Fisheries and Aquaculture						
Fisheries Development Act	71.8	61.7	10.1	71.5	42.6	28.9
Health and Community Services						
Saint John Regional Laundry	0.6	—	0.6	1.1	—	1.1
Municipalities and Housing						
Loans to Municipalities	0.1	—	0.1	0.2	—	0.2
New Brunswick Housing Act	20.8	2.9	17.9	21.0	3.0	18.0
Other Loans	0.2	0.2	—	0.2	0.2	—
Regional Development Corporation						
Fundy Trail Trust	2.8	—	2.8	5.0	—	5.0
Solicitor General						
City of Moncton	3.0	—	3.0	—	—	—
Supply and Services						
Other Loans	0.1	—	0.1	0.1	—	0.1
Transportation						
Unsatisfied Judgements	9.5	9.5	—	9.5	9.5	—
	$ 256.9	$ 133.2	$ 123.7	$ 266.0	$ 91.5	$ 174.5

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 6
INVESTMENTS

	(millions) 1999	1998
Investment in Government Enterprises		
Lotteries Commission of New Brunswick	$ 6.6	$ 7.7
New Brunswick Liquor Corporation	11.1	10.9
New Brunswick Municipal Finance Corporation	0.7	0.7
New Brunswick Power Corporation	2.3	425.3
Workplace Health, Safety and Compensation Commission	31.7	12.8
	52.4	457.4
Other Long Term Investments	3.5	3.3
	$ 55.9	$ 460.7

SCHEDULE 7
BANK ADVANCES AND SHORT TERM BORROWING

	1999	1998
Bank Overdrafts	$ 132.1	$ 75.7
Treasury Bill 0% Maturing 10 March 2000	1.0	1.0
Treasury Bills 4.78% - 5.75% Maturing 6 April 1999 - 1 November 1999	581.0	849.6
	714.1	926.3
Less:		
Cash	30.3	54.8
Short Term Investments	402.7	577.1
	433.0	631.9
	$ 281.1	$ 294.4

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 8
ACCOUNTS PAYABLE

	(millions) 1999	1998
Accounts Payable for Goods and Services		
Agriculture and Rural Development	$ 3.5	$ 3.9
Economic Development, Tourism and Culture	11.4	8.7
Education	37.0	21.8
Environment	2.9	1.2
Finance	9.5	13.7
Fisheries and Aquaculture	2.5	3.2
General Government	63.3	1.8
Health and Community Services	51.2	57.8
Human Resources Development - NB	9.7	5.7
Labour	7.4	11.6
Maritime Provinces Higher Education Commission	10.7	---
Municipalities and Housing	14.5	13.0
Natural Resources and Energy	66.6	3.4
Office of the Comptroller	7.2	11.1
Regional Development Corporation	1.7	2.8
Solicitor General	20.9	13.3
Supply and Services	12.8	10.5
Transportation	26.1	24.3
Other Departments	4.3	2.7
Due to Canada		
Department of Regional Industrial Expansion	2.8	3.7
Other Agreements	7.7	1.9
New Brunswick Housing Corporation - Third Parties	47.5	48.7
Other	8.2	7.8
	$ 429.4	$ 272.6

SCHEDULE 9
ACCRUED EXPENDITURES

	1999	1998
Accrued Interest		
Funded Debt	$ 155.9	$ 149.3
Outstanding Treasury Bills	3.4	6.0
Other	0.9	0.9
	160.2	156.2
Accrued Salaries Payable	93.1	93.3
Deficits of Hospital Corporations	76.1	48.1
Health and Community Services	30.1	27.5
Holdbacks on Contracts	4.5	7.0
Liability for Injured Workers	40.1	37.9
Retirement Allowances	211.3	201.9
Other	37.8	42.3
	$ 653.2	$ 614.2

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 10
ALLOWANCE FOR LOSSES

	(millions) 1999	1998
Agriculture and Rural Development	$ 0.1	$ 0.1
Economic Development, Tourism and Culture	13.0	6.8
Education	1.3	1.2
Labour	1.9	2.9
	$ 16.3	$ 11.0

SCHEDULE 11
DEFERRED REVENUE

	1999	1998
Harmonization Transitional Payment	$ 100.0	$ 353.0
Highway Improvement Recoveries	7.4	0.3
Motor Vehicle and Operators' Licenses	35.1	33.0
Real Property Taxes	188.3	185.8
Redevelopment of the Miramichi Region - Grant	6.0	8.6
Renovation of Old Government House - Grant	—	2.0
Other	3.9	3.7
	$ 340.7	$ 586.4

SCHEDULE 12
DEPOSITS HELD IN TRUST

	1999	1998
Administrator of Estates of Patients in Psychiatric Facilities	$ 0.4	$ 0.5
Contractors' Deposits	0.8	1.0
Court of Queen's Bench	4.0	3.1
Employee Contributions for Early Retirement Benefits	5.8	6.2
Mining Licenses - Non-Performance Renewal Fees	2.0	1.9
New Brunswick Crop Reinsurance Fund	1.2	0.5
Sale of Property for Taxes	0.7	0.8
Scholarship Trusts	1.7	1.6
Tenants' Security Deposits	8.5	8.1
Other	4.4	2.9
	$ 29.5	$ 26.6

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 8
ACCOUNTS PAYABLE

	(millions) 1999	(millions) 1998
Accounts Payable for Goods and Services		
Agriculture and Rural Development	$ 3.5	$ 3.9
Economic Development, Tourism and Culture	11.4	8.7
Education	37.0	21.8
Environment	2.9	1.2
Finance	9.5	13.7
Fisheries and Aquaculture	2.5	3.2
General Government	63.3	1.8
Health and Community Services	51.2	57.8
Human Resources Development - NB	9.7	5.7
Labour	7.4	11.6
Maritime Provinces Higher Education Commission	10.7	---
Municipalities and Housing	14.5	13.0
Natural Resources and Energy	66.6	3.4
Office of the Comptroller	7.2	11.1
Regional Development Corporation	1.7	2.8
Solicitor General	20.9	13.3
Supply and Services	12.8	10.5
Transportation	26.1	24.3
Other Departments	4.3	2.7
Due to Canada		
Department of Regional Industrial Expansion	2.8	3.7
Other Agreements	7.7	1.9
New Brunswick Housing Corporation - Third Parties	47.5	48.7
Other	8.2	7.8
	$ 429.4	$ 272.6

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ACCRUED EXPENDITURES

	1999	1998
Accrued Interest		
Funded Debt	$ 155.9	$ 149.3
Outstanding Treasury Bills	3.4	6.0
Other	0.9	0.9
	160.2	156.2
Accrued Salaries Payable	93.1	93.3
Deficits of Hospital Corporations	76.1	48.1
Health and Community Services	30.1	27.5
Holdbacks on Contracts	4.5	7.0
Liability for Injured Workers	40.1	37.9
Retirement Allowances	211.3	201.9
Other	37.8	42.3
	$ 653.2	$ 614.2

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

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	(millions) 1999	1998
Agriculture and Rural Development	$ 0.1	$ 0.1
Economic Development, Tourism and Culture	13.0	6.8
Education	1.3	1.2
Labour	1.9	2.9
	$ 16.3	$ 11.0

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Harmonization Transitional Payment	$ 100.0	$ 353.0
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	$ 340.7	$ 586.4

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	1999	1998
Administrator of Estates of Patients in Psychiatric Facilities	$ 0.4	$ 0.5
Contractors' Deposits	0.8	1.0
Court of Queen's Bench	4.0	3.1
Employee Contributions for Early Retirement Benefits	5.8	6.2
Mining Licenses - Non-Performance Renewal Fees	2.0	1.9
New Brunswick Crop Reinsurance Fund	1.2	0.5
Sale of Property for Taxes	0.7	0.8
Scholarship Trusts	1.7	1.6
Tenants' Security Deposits	8.5	8.1
Other	4.4	2.9
	$ 29.5	$ 26.6

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 13
TAXES ON CONSUMPTION

	(millions) 1999 Budget	 1999 Actual	 1998 Actual
Gasoline and Motive Fuels Tax	$ 171.0	$ 173.9	$ 165.3
Harmonized Sales Tax	633.7	593.3	584.7
Tobacco Tax	43.0	46.7	42.4
Other	0.1	0.1	0.1
	$ 847.8	$ 814.0	$ 792.5

SCHEDULE 14
TAXES ON INCOME

	1999 Budget	1999 Actual	1998 Actual
Corporate Income Tax	$ 117.0	$ 116.9	$ 206.3
Mining Tax	4.0	3.2	4.4
Personal Income Tax	842.0	779.5	810.4
	$ 963.0	$ 899.6	$ 1,021.1

SCHEDULE 15
OTHER TAXES

	1999 Budget	1999 Actual	1998 Actual
Financial Corporation Capital Tax	$ 8.5	$ 7.9	$ 8.5
Insurance Premium Tax	26.8	24.8	24.4
Large Corporation Capital Tax	30.0	23.6	25.7
Other	2.7	3.0	2.9
	$ 68.0	$ 59.3	$ 61.5

SCHEDULE 16
LICENSES AND PERMITS

	1999 Budget	1999 Actual	1998 Actual
Angling Licenses	$ 1.8	$ 1.6	$ 1.8
Corporations - Annual Filing Fees	1.7	1.9	1.7
Corporations - Letters Patent	1.1	1.2	1.0
Hunting Licenses	2.2	2.3	2.3
Liquor Licensing Board	5.6	2.7	2.8
Motor Vehicle Licenses	71.5	73.5	70.6
Other	11.2	11.4	9.3
	$ 95.1	$ 94.6	$ 89.5

SCHEDULE 17
ROYALTIES

	1999 Budget	1999 Actual	1998 Actual
Forest	$ 47.2	$ 53.4	$ 46.9
Mines	5.6	8.1	10.8
	$ 52.8	$ 61.5	$ 57.7

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 18
INVESTMENT INCOME

	1999 Budget (millions)	1999 Actual (millions)	1998 Actual (millions)
Lottery Revenues	$ 97.1	$ 86.0	$ 85.7
New Brunswick Liquor Corporation	91.4	93.0	85.3
New Brunswick Power Corporation	40.0	(423.0)	(21.2)
Workplace Health, Safety and Compensation Commission	2.9	18.9	6.8
Other Investment Income	20.7	22.8	23.3
	$ 252.1	$ (202.3)	$ 179.9

SCHEDULE 19
OTHER PROVINCIAL REVENUE

	1999 Budget	1999 Actual	1998 Actual
Sales of Goods and Services	$ 101.7	$ 133.4	$ 133.6
Other Revenue	26.3	41.2	41.4
	$ 128.0	$ 174.6	$ 175.0

SCHEDULE 20
CONDITIONAL GRANTS - CANADA

	1999 Budget	1999 Actual	1998 Actual
Aquaculture Compensation	$ ---	$ 13.0	$ ---
Atlantic Freight Transition	11.3	10.1	46.6
Canada Mortgage and Housing Corporation	31.1	34.7	36.1
Economic Development	21.4	20.3	20.3
First Nation Students	5.1	6.5	5.6
Flood and Storm Damage	---	5.9	2.8
Highway Improvements	19.5	19.1	24.4
Infrastructure Program	8.2	6.2	8.7
Job Corps	8.4	8.0	8.1
Labour Development Agreements	86.5	84.9	45.0
New Brunswick Works	---	0.6	1.3
Official Languages in Education Agreement	13.3	12.4	14.2
Vocational Treatment and Rehabilitation of Disabled Persons	5.5	6.4	5.5
Young Offenders Act	4.3	4.3	4.9
Other	13.5	22.6	29.8
	$ 228.1	$ 255.0	$ 253.3

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

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TAXES ON CONSUMPTION

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SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

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Other	13.5	22.6	29.8
	$ 228.1	$ 255.0	$ 253.3

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 21
EDUCATION

	(millions)		
	1999 Budget	1999 Actual	1998 Actual
Education	$ 752.1	$ 751.8	$ 711.2
General Government	2.1	(51.4)	(31.4)
Maritime Provinces Higher Education Commission	158.9	159.4	165.7
Supply and Services	18.4	19.3	24.8
	$ 931.5	$ 879.1	$ 870.3

SCHEDULE 22
HEALTH

	(millions)		
	1999 Budget	1999 Actual	1998 Actual
General Government	$ ---	$ 16.4	$ ---
Health and Community Services	1,323.5	1,396.2	1,307.0
Supply and Services	6.5	6.1	8.5
	$ 1,330.0	$ 1,418.7	$ 1,315.5

SCHEDULE 23
INCOME ASSISTANCE

	(millions)		
	1999 Budget	1999 Actual	1998 Actual
General Government	$ 2.2	$ 4.0	$ 4.4
Human Resources Development - NB	308.9	293.1	297.5
	$ 311.1	$ 297.1	$ 301.9

SCHEDULE 24
JUSTICE

	(millions)		
	1999 Budget	1999 Actual	1998 Actual
General Government	$ 2.1	$ 1.4	$ 1.6
Justice	30.1	30.5	28.6
Solicitor General	73.8	78.3	73.6
Supply and Services	0.1	0.1	0.9
	$ 106.1	$ 110.3	$ 104.7

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 25
ECONOMIC DEVELOPMENT

	(millions) 1999 Budget	 1999 Actual	 1998 Actual
Agriculture and Rural Development	$ 23.8	$ 24.6	$ 24.6
Economic Development, Tourism and Culture	59.4	64.4	53.7
Environment	31.7	37.1	34.0
Fisheries and Aquaculture	11.2	11.4	12.4
General Government	28.1	62.4	26.8
Labour	130.0	114.5	91.6
Natural Resources and Energy	77.2	142.6	74.2
Regional Development Corporation	61.6	62.8	59.6
Regional Development Corporation - Special Operating Agency	21.4	31.2	55.6
Supply and Services	0.5	8.4	9.3
	$ 444.9	$ 559.4	$ 441.8

SCHEDULE 26
MUNICIPAL AFFAIRS

	1999 Budget	1999 Actual	1998 Actual
General Government	$ 0.3	$ 0.3	$ 0.3
Municipalities and Housing	194.5	202.1	195.1
Supply and Services	0.2	0.2	0.3
	$ 195.0	$ 202.6	$ 195.7

SCHEDULE 27
TRANSPORTATION

	1999 Budget	1999 Actual	1998 Actual
General Government	$ 0.3	$ 5.1	$ ---
New Brunswick Highway Corporation	---	13.4	---
Transportation	329.2	338.8	379.8
	$ 329.5	$ 357.3	$ 379.8

SCHEDULE 28
CENTRAL GOVERNMENT

	1999 Budget	1999 Actual	1998 Actual
Executive Council	$ 3.3	$ 3.9	$ 2.9
Finance	21.8	20.3	20.6
General Government	85.0	36.8	71.6
Intergovernmental and Aboriginal Affairs	2.1	2.0	1.4
Legislative Assembly	11.7	12.5	11.0
New Brunswick Investment Management Corporation	—	3.6	2.7
Office of the Comptroller	5.1	5.0	4.9
Office of the Premier	1.2	1.2	1.3
Service New Brunswick	—	36.4	31.2
Supply and Services	86.5	88.1	107.7
	$ 216.7	$ 209.8	$ 255.3

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

(millions)

SCHEDULE 21
EDUCATION

	1999 Budget	1999 Actual	1998 Actual
Education	$ 752.1	$ 751.8	$ 711.2
General Government	2.1	(51.4)	(31.4)
Maritime Provinces Higher Education Commission	158.9	159.4	165.7
Supply and Services	18.4	19.3	24.8
	$ 931.5	$ 879.1	$ 870.3

SCHEDULE 22
HEALTH

	1999 Budget	1999 Actual	1998 Actual
General Government	$ ---	$ 16.4	$ ---
Health and Community Services	1,323.5	1,396.2	1,307.0
Supply and Services	6.5	6.1	8.5
	$ 1,330.0	$ 1,418.7	$ 1,315.5

SCHEDULE 23
INCOME ASSISTANCE

	1999 Budget	1999 Actual	1998 Actual
General Government	$ 2.2	$ 4.0	$ 4.4
Human Resources Development - NB	308.9	293.1	297.5
	$ 311.1	$ 297.1	$ 301.9

SCHEDULE 24
JUSTICE

	1999 Budget	1999 Actual	1998 Actual
General Government	$ 2.1	$ 1.4	$ 1.6
Justice	30.1	30.5	28.6
Solicitor General	73.8	78.3	73.6
Supply and Services	0.1	0.1	0.9
	$ 106.1	$ 110.3	$ 104.7

SCHEDULES TO THE FINANCIAL STATEMENTS
31 March 1999

SCHEDULE 25
ECONOMIC DEVELOPMENT

	(millions) 1999 Budget	1999 Actual	1998 Actual
Agriculture and Rural Development	$ 23.8	$ 24.6	$ 24.6
Economic Development, Tourism and Culture	59.4	64.4	53.7
Environment	31.7	37.1	34.0
Fisheries and Aquaculture	11.2	11.4	12.4
General Government	28.1	62.4	26.8
Labour	130.0	114.5	91.6
Natural Resources and Energy	77.2	142.6	74.2
Regional Development Corporation	61.6	62.8	59.6
Regional Development Corporation - Special Operating Agency	21.4	31.2	55.6
Supply and Services	0.5	8.4	9.3
	$ 444.9	$ 559.4	$ 441.8

SCHEDULE 26
MUNICIPAL AFFAIRS

	1999 Budget	1999 Actual	1998 Actual
General Government	$ 0.3	$ 0.3	$ 0.3
Municipalities and Housing	194.5	202.1	195.1
Supply and Services	0.2	0.2	0.3
	$ 195.0	$ 202.6	$ 195.7

SCHEDULE 27
TRANSPORTATION

	1999 Budget	1999 Actual	1998 Actual
General Government	$ 0.3	$ 5.1	$ ---
New Brunswick Highway Corporation	---	13.4	---
Transportation	329.2	338.8	379.8
	$ 329.5	$ 357.3	$ 379.8

SCHEDULE 28
CENTRAL GOVERNMENT

	1999 Budget	1999 Actual	1998 Actual
Executive Council	$ 3.3	$ 3.9	$ 2.9
Finance	21.8	20.3	20.6
General Government	85.0	36.8	71.6
Intergovernmental and Aboriginal Affairs	2.1	2.0	1.4
Legislative Assembly	11.7	12.5	11.0
New Brunswick Investment Management Corporation	---	3.6	2.7
Office of the Comptroller	5.1	5.0	4.9
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	$ 216.7	$ 209.8	$ 255.3

Exhibit f

Office of the
Auditor General

Bureau du
vérificateur général

New
Nouveau Brunswick

CONSENT OF AUDITOR GENERAL

I hereby consent to the inclusion of the report of the Auditor General on the financial statements of the Province of New Brunswick for the fiscal year ended 31 March 1999 as exhibit (e) to the Annual Report on Form 18-K of the Province of New Brunswick for the fiscal year ended 31 March 1999, and to the incorporation by reference of such report in the Registration Statement No. 33-89790 of the Province of New Brunswick.

Fredericton, New Brunswick
22 December 1999

Daryl C. Wilson, FCA
Auditor General

Tel./Téléphone:
(506) 453-2243
Fax/Télécopieur:
(506) 453-3067

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Fredericton
New Brunswick
Canada E3B 5B1

Case postale 758
Fredericton
Nouveau-Brunswick
Canada E3B 5B1

Exhibit g

NEW BRUNSWICK POWER CORPORATION
REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1999

Deloitte &
Touche

Deloitte & Touche LLP
Brunswick House
44 Chipman Hill
P.O. Box 6549, Station A
Saint John, New Brunswick
E2L 4R9

Telephone: (506) 632-1080
Facsimile: (506) 632-1210

AUDITORS' REPORT

The Honourable Marilyn Trenholme Counsell, MD
Lieutenant-Governor of New Brunswick
Fredericton, New Brunswick

Madam:

We have audited the consolidated balance sheet of New Brunswick Power Corporation as at March 31, 1999 and the consolidated statements of income, retained earnings, and changes in financial position for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1999 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

June 1, 1999

Deloitte Touche
Tohmatsu

NEW BRUNSWICK POWER CORPORATION
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended March 31, 1999
(in millions)

	1999		1998	
REVENUES				
Sales of power (Note 3)				
In-province	$ 872		$ 869	
Out-of-province	304		244	
Miscellaneous	28		27	
		1,204		1,140
EXPENDITURES				
Purchased power	98		120	
Fuel	276		284	
Operation, maintenance and administration	277		258	
Depreciation, amortization and decommissioning (Note 4)	189		177	
		840		839
Income before finance charges		364		301
Finance charges (Note 5)		346		344
Income (loss) before transfer and write-off		18		(43)
Transfer from fuel channel removal account (Note 6)		9		22
Income (loss) before write-off		27		(21)
Write-off of deferred cost - nuclear generating station (Note 11)		450		-
NET LOSS FOR THE YEAR		(423)		(21)
RETAINED EARNINGS				
BEGINNING OF YEAR		425		446
END OF YEAR		$ 2		$ 425

NEW BRUNSWICK POWER CORPORATION
CONSOLIDATED BALANCE SHEET
as at March 31, 1999
(in millions)

	1999	1998
PROPERTY, PLANT AND EQUIPMENT (Note 7)		
Land. buildings, plant and equipment, at cost	$ 5,218	$ 5,175
Less: accumulated depreciation	2,088	1,923
	3,130	3,252
LONG-TERM ASSETS		
Sinking fund investments (Note 12)	56	70
CURRENT ASSETS		
Cash and short-term investments	7	4
Accounts receivable	191	188
Materials, supplies and fuel	74	77
Prepaid expenses	3	5
	275	274
DEFERRED CHARGES		
Unrealized foreign exchange differences, less amounts amortized (Note 8)	155	111
Debenture and note discount and issue expenses, less amounts amortized	25	29
Deferred pension benefit (Note 9)	25	11
Deferred cost - nuclear generating station (Note 11)	-	450
	205	601
	$ 3,666	$ 4,197

ON BEHALF OF NEW BRUNSWICK POWER CORPORATION

_______________ Chairman

_______________ Director

NEW BRUNSWICK POWER CORPORATION
CONSOLIDATED BALANCE SHEET

as at March 31, 1999

(in millions)

	1999	1998
LONG-TERM DEBT (Note 12)		
Debentures and other loans	$ 3,250	$ 3,363
Less: sinking funds	305	288
	2,945	3,075
CURRENT LIABILITIES		
Short-term indebtedness (Note 13)	159	194
Accounts payable and accruals	128	105
Accrued interest	84	85
Current portion of long-term debt (Note 12)	130	99
	501	483
DEFERRED LIABILITIES		
Irradiated fuel management and plant decommissioning (Note 14)	197	185
Fuel channel removal (Note 6)	-	9
Other (Note 15)	21	20
	218	214
EQUITY		
Retained earnings	2	425
	$ 3,666	$ 4,197

NEW BRUNSWICK POWER CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOW
Year ended March 31, 1999
(in millions)

	1999	1998
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES :		
OPERATING		
Net loss for the year	$ (423)	$ (21)
Amounts charged or credited to operations not requiring a current cash payment (Note 16)	670	184
	247	163
Net change in non-cash working capital balances	21	(25)
	268	138
FINANCING		
Debt retirements	(81)	(99)
Sinking fund payments	(70)	(67)
Increase (decrease) in short-term indebtedness	(35)	82
	(186)	(84)
INVESTING		
Expenditure on property, plant and equipment net of customer contributions and proceeds on disposal	(65)	(59)
Deferred pension benefit	(14)	(11)
	(79)	(70)
NET CASH INFLOW (OUTFLOW)	3	(16)
CASH AND SHORT-TERM INVESTMENTS		
BEGINNING OF YEAR	4	20
END OF YEAR	$ 7	$ 4

1. SIGNIFICANT ACCOUNTING POLICIES

The New Brunswick Power Corporation ("the Corporation"), established in 1920 as a Crown Corporation of the Province of New Brunswick by enactment of the New Brunswick Electric Power Act, has a corporate mission to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles appropriate for a rate-regulated entity, applied on a basis consistent with that of the preceding year except for changes disclosed in Note 2. The financial statements include the accounts of the Corporation and those of its wholly owned subsidiary, N.B. Coal Limited (N.B.Coal).

a. Regulation

The Corporation is regulated under a price cap system. Annual average rate increases greater than three percent, or the Consumer Price Index, whichever is higher, require regulatory review and approval by the Board of Commissioners of Public Utilities of the Province of New Brunswick (Public Utilities Board).

b. Property, plant and equipment

The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and material, interest on funds used during construction and indirect charges for administration and other expenses, less credits for the value of power generated during commissioning. Administration and other expenses are capitalized during construction by applying a portion of such overheads to direct construction costs incurred each month. Certain training costs associated with the development of new facilities and costs of major maintenance activities which occur infrequently over the lives of related assets are also capitalized.

Interest during construction is capitalized monthly based on the cost of long-term borrowings. When assets are taken out of service for extended periods of time for refurbishment, interest during construction is charged based on the net book value of the asset concerned.

Costs incurred for conservation and energy management, including interest capitalized on programs with long-term benefits, are included as a separate category of property, plant and equipment.

Contributions in aid of construction which include amounts received from customers as well as research and development grants in respect of new facilities, are netted against the cost of related assets. Amounts received from customers are being amortized over the estimated service lives of the related assets, and the resulting credit is offset against the corresponding provision for depreciation.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Property, plant and equipment (continued)

The cost of distribution assets retired, net of dismantlement and salvage, is charged to accumulated depreciation. For all other property, plant and equipment disposed of, the cost and accumulated depreciation is written out of the accounts with the gain or loss on disposal being charged to operations.

Depreciation is provided for all assets sufficient to amortize the cost of such assets, less estimated salvage value over their estimated service lives. The estimated service lives of fixed assets are periodically reviewed and any changes are applied prospectively. Depreciation is suspended when assets are taken out of service for extended periods for refurbishment. Depreciation is provided on certain mining equipment on an increasing charge basis, the depreciation amount being based on the amount of related debt retirement required during the year. All other assets are depreciated on a straight-line basis. Depreciation is provided on the net cost of property, plant and equipment in respect of which grants have been provided.

The main categories of property, plant and equipment have been depreciated based on the following estimated service lives:

Assets	Years
Hydro Generating Stations	100
Thermal Generating Stations	35
Nuclear Generating Station	25
Combustion Turbine Generating Stations	25
Terminals and Substations	40
Transmission System	35 to 55
Distribution System	10 to 35
Buildings	
- General	40
- Head Office	50
Mining Equipment	20 to 25

Each asset category includes components which are depreciated over service lives shorter than their related main asset categories.

c. Inventories

Inventories of materials and supplies, oil and coal are valued at average cost. Nuclear fuel is valued at cost using the first-in, first-out method.

d. Debenture and note discounts and premiums, and issue expenses

The Corporation amortizes debenture and note discounts and premiums and the expenses of issues over the lives of the issues to which they pertain.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Foreign exchange transactions

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian (Cdn) dollars at rates of exchange prevailing at the balance sheet date except where such items have been hedged by the acquisition of a forward exchange contract, in which case the rate established by the terms of the contract is used in the translation. Unrealized losses or gains arising on translation of long-term items are amortized to income on a straight-line basis over the remaining life of the related monetary assets or liabilities, except that amounts associated with the financing of major construction projects still in progress are deferred until the project is completed before being amortized over the then remaining life of the related monetary liabilities. The unamortized balance of the deferred exchange gains or losses is accumulated in an unrealized foreign exchange account which is shown on the balance sheet under deferred charges.

Exchange gains or losses resulting from transactions affecting current operations are reflected in income.

f. Financial instruments

Long-term debt

Long-term debt is recorded in the balance sheet at cost. The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. The fair value estimated does not include costs that would be incurred to exchange or settle the debt.

Derivative financial products

The Corporation enters into forward exchange contracts to manage exchange risk related to interest obligations on US denominated long-term debt for terms up to twelve months. The Corporation also enters into oil swap agreements to reduce exposure to changes in the cost of oil used in the operations of its plants. The Corporation does not enter into derivative financial products for speculative purposes.

g. Revenue

Billings to residential and general service customers are rendered monthly on a cyclical basis. All other customers are billed at the end of each month. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

h. Irradiated fuel management and plant decommissioning

In order to provide for the estimated future costs of permanently disposing of irradiated nuclear fuel and decommissioning the nuclear generating station to return the site to a state of unrestricted use, the Corporation annually charges income with amounts calculated to be adequate, when accumulated with interest, to cover the total costs of

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Irradiated fuel management and plant decommissioning (continued)

these future activities as they occur. The calculations of the anticipated future costs are based on a detailed study which takes into account various assumptions regarding the method and timing of dismantlement of the nuclear facility, the cost of transportation of nuclear material to permanent disposal facilities, and estimates of interest and inflation rates in the future. With respect to irradiated nuclear fuel, the annual charge is related to the amount of nuclear fuel consumed in each year while decommissioning requirements are charged on a straight-line basis over the life of the station.

The Corporation is also providing through an annual charge to income, for the estimated future costs of decommissioning its thermal generating stations. The amount of the charge, when accumulated with interest, is intended to cover the total costs of decommissioning activities as they occur.

Amounts charged each year to cover these activities are accumulated in a deferred liability account, together with interest, compounded annually, on the total amounts collected. Interest is calculated at the Corporation's long-term borrowing rate and is charged to income annually.

Costs incurred on a current basis relating to irradiated fuel management and plant decommissioning are charged against the deferred liability account.

In view of potential developments in the technology of decommissioning and irradiated fuel management, and because of the various assumptions and estimates inherent in the calculations, the Corporation reviews such calculations periodically, making adjustments as necessary on a prospective basis.

i. Pension plans

Corporation employees belong to the Province of New Brunswick Public Service Superannuation Plan. This multi-employer plan provides pensions based on length of service and the average of the highest five consecutive years of earnings. The Corporation and its employees make contributions to the plan as prescribed in the Public Service Superannuation Act and its regulations. N.B. Coal maintains a private contributory defined benefit pension plan for its employees.

Under both plans, pension costs are actuarially determined using the projected benefit method, pro-rated on services and management's best estimate assumptions. Adjustments arising from plan amendments, experience gains and losses, changes in actuarial assumptions and the difference between the actuarial present value of accrued pension obligations and the market related value of pension assets are amortized on a straight-line basis over the expected average remaining service lives of the respective employee group.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Retiring allowance

The Corporation has a retiring allowance program for employees that provides a lump-sum payment equal to one week of pay for each full year of continuous employment to a maximum of 26 weeks of pay. The actuarial present value of accrued retiring allowance obligations for past service is amortized on a straight line basis over the expected average remaining service life of the respective employee group.

k. Early retirement programs

The total cost of such programs is charged to income in the year the program is initiated, irrespective of when payments are actually made.

l. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from the estimates.

2. CHANGES IN ACCOUNTING POLICIES

a) Depreciation Method for Nuclear Generating Station

Effective April 1, 1998, the Corporation prospectively changed the method of depreciation for the nuclear generating station from escalating to straight-line and shortened the service life of the station from 31 years to 25 years. This resulted in an increase in depreciation expense of $6 million in the year 1998/99.

b) Retiring Allowance

Effective April 1, 1998, the Corporation prospectively changed the method of accounting for retiring allowances from a cash basis to an accrual basis. This resulted in an increase in operations, maintenance and administration expenses of $3 million and an increase in finance charges of $1 million in the year 1998/99.

3. SALES

a) Power sales to the Province of New Brunswick and other government owned organizations are recorded at normal commercial rates.

b) Out-of-province sales of power include $183 million (1998 - $150 million) to utilities in the United States.

4. DEPRECIATION, AMORTIZATION AND DECOMMISSIONING

	1999	1998
Depreciation expense	$ 186	$ 174
Charges for decommissioning	3	3
	$ 189	$ 177

5. FINANCE CHARGES

	1999	1998
Interest expense - on debentures and other loans	$ 321	$ 323
- on deferred liabilities	14	15
	335	338
Less: Income from sinking funds and other investments	35	31
	300	307
Provincial government guarantee fee	21	22
Amortization of debenture discount and expense	4	4
Amortization of unrealized foreign exchange	22	12
	347	345
Less: Interest capitalized	1	1
	$ 346	$ 344

6. FUEL CHANNEL REMOVAL

The Corporation has eliminated the fuel channel removal liability account over a three year period which commenced October 1, 1995, following a determination that there was no requirement for the account. An amount of $9 million has been credited to income in the year ended March 31, 1999 (1998 - $22 million).

7. PROPERTY, PLANT AND EQUIPMENT

	1999		1998	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Power generating stations	$ 3,683	$ 1,447	$ 3,680	$ 1,320
Transmission system	249	106	247	101
Terminals and substations	390	175	386	163
Distribution system	636	240	616	224
Other properties	57	24	56	22
Communications equipment	15	9	15	8
Mining equipment and related assets	74	44	75	40
Motor vehicles and miscellaneous equipment	66	43	72	45
Conservation and energy management	6	-	5	-
Construction-in-progress	42	-	23	-
	$ 5,218	$ 2,088	$ 5,175	$ 1,923

8. UNREALIZED FOREIGN EXCHANGE DIFFERENCES, LESS AMOUNTS AMORTIZED

	1999	1998
Exchange adjustment at balance sheet date	$ 204	$ 162
Less: accumulated amortization	49	51
	$ 155	$ 111

9. DEFERRED PENSION BENEFIT

Corporation employees belong to the Province of New Brunswick Public Service Superannuation Plan (Public Service Plan) as described in Note 1i. Actuarial valuations are prepared periodically to determine the costs of the pension benefits and the appropriate amounts of contributions to the fund. The actuarial method used incorporates management's or the plan owner's best estimate assumptions to determine the present value of accrued pension benefit obligations based on projections of salaries and wages to normal retirement dates. The interest rate on accrued pension benefits and the rate of return on assets used in these calculations was 8.42%. The latest actuarial valuation done on the Public Service Plan was April 1, 1997.

The status of the costs and obligations of the Corporation's share of the Public Service Plan and N.B. Coal's private plan as at March 31,1999 was as follows:

	1999	1998
Pension fund assets (market value)	$ 540	$ 543
Accrued pension obligations	$ 512	$ 472
Determination of pension expense for the year is summarized below:		
Cost of benefits for the year	$ 6	$ 5
Interest cost on accrued benefits	40	37
Interest on pension fund assets	(45)	(38)
Amortization of transitional surplus	(1)	(1)
Amortization of gains/losses	1	-
Pension expense	$ 1	$ 3

Total contributions to the plans in excess of pension expense, in the amount of $25 million (1998 - $11 million) have been set up as an asset under deferred charges.

10. RETIRING ALLOWANCE LIABILITY

The Corporation has a retiring allowance program for employees as described in Note 1j. Actuarial calculations are prepared to determine the amount of the Corporation's obligations for retiring allowances. The actuarial method used incorporates management's best estimate assumptions to determine the present value of the accrued retiring allowance obligation based on projections of salaries and wages to normal retirement dates. The interest rate used in the calculation of this obligation was 6%. The latest actuarial calculation was done as at April 1, 1998.

The retiring allowance obligation as at March 31, 1999 is $23 million.

10. RETIRING ALLOWANCE LIABILITY (Continued)

Determination of the retiring allowance expense for the year is summarized below:

Cost of allowance for the year	$1
Interest cost on the accrued obligation	1
Amortization of transitional obligation	2
	$4

11. WRITE-OFF OF DEFERRED COST - NUCLEAR GENERATING STATION

In 1997/98 the carrying value of the nuclear generating station was reduced by $450 million and an offsetting deferred charge of $450 million was recorded on the balance sheet. The Corporation committed to identify a new revenue stream designed specifically to recover the $450 million deferred charge over a future period or write off the amount in 1998/99.

During the fiscal year, the Corporation was not able to identify a new revenue stream to recover the $450 million deferred charge. Therefore, this deferred charge has been written off against income.

12. LONG-TERM DEBT

	1999	1998
Debentures guaranteed by the Province of New Brunswick	$ 363	$ 441
Debentures held by the Province of New Brunswick	3,017	3,021
	3,380	3,462
Less: Payments due within one year	130	99
	$ 3,250	$ 3,363

12. LONG-TERM DEBT (continued)

Debentures and notes

Date of maturity	Average Interest Rate	Canadian	US	1999	1998
Years ending:					
March 31, 1999	-	-	-	-	65
March 31, 2000	8.3%	100	-	100	100
March 31, 2001	10.6%	251	-	251	251
March 31, 2002	9.6%	250	-	250	250
March 31, 2003	8.0%	500	181	681	670
March 31, 2004	7.5%	100	-	100	-
1-5 Years	8.7%	1,201	181	1,382	1,336
6-10 years	10.2%	620	-	620	670
11-30 Years	8.9%	550	815	1,365	1,440
Debentures and notes		$2,371	$996	$3,367	$3,446

	1999	1998
Loan payable in annual installments of principal and interest at rates varying from 4.5% to 8.5% per annum to the year 2011.	13	16
Total long-term debt	$3,380	$3,462

The US$ debenture balance outstanding at March 31, 1999 is US$ 660 million.

The weighted average interest rate on all debentures and notes outstanding at March 31, 1999 is 9.07% (1998 - 9.06%).

12. LONG-TERM DEBT (continued)

Long-term debt payments

Long-term debt maturities (after deducting sinking funds estimated to be available at maturity inclusive of actual earnings to March 31, 1999 and future earnings calculated at projected interest rates) and sinking fund requirements in respect of debt outstanding at March 31, 1999 are as follows for the five years ending March 31, 2004, using exchange rates in effect at March 31, 1999 for debt denominated in foreign currencies:

	Debt maturities and sinking fund obligations (in millions)
Year ending March 31, 2000	$ 130
Year ending March 31, 2001	237
Year ending March 31, 2002	246
Year ending March 31, 2003	613
Year ending March 31, 2004	109

Sinking funds

The Minister of Finance of the Province of New Brunswick, as Trustee for the Corporation, maintains a sinking fund for all debenture issues where required. Sinking fund earnings are reflected in the Corporation's income. Corporation debentures held in the fund are cancelled at maturity or on the debenture call date. Sinking fund investments are deducted from long-term debt except where the legally enforceable right to offset does not exist. The amounts not offset, totaling $56 million (1998 - $70 million), have been reclassified as investments.

Guarantee fee

The Corporation pays an annual guarantee fee to the Province of New Brunswick, amounting to 0.6489% of the total, as at the previous year end, of long-term debt guaranteed by the Province, debentures held by the Province and short-term indebtedness to the Province, less the balance held in sinking funds.

13. SHORT-TERM INDEBTEDNESS

Short-term borrowings from banks are payable on demand. The Corporation has bank lines of credit, guaranteed by the Province of New Brunswick, for short-term borrowings totaling $120 million. In addition, the Corporation borrows funds for temporary purposes from other sources, including the Province of New Brunswick, from time to time.

N.B. Coal has bank lines of credit which are secured by a general assignment of book debts.

The short-term borrowings from the Province of New Brunswick are $159 million at March 31, 1999 (1998 - $194 million).

14. IRRADIATED FUEL MANAGEMENT AND PLANT DECOMMISSIONING

	1999	1998
Balance, beginning of year	$ 185	$ 172
Amounts charged (or credited) to operations for		
- decommissioning	3	3
- disposal of nuclear fuel consumed during the year	(1)	(3)
- interest on decommissioning and irradiated fuel	11	14
	13	14
Less: Expenditures incurred during the year	1	1
Balance, end of year	$ 197	$ 185

While the obligation is recorded, it is not funded.

15. DEFERRED LIABILITIES - OTHER

	1999	1998
Early retirement programs	$ 20	$ 24
Retirement allowance program	4	-
	24	24
Less: Amounts due within one year	3	4
	$ 21	$ 20

16. AMOUNTS CHARGED OR CREDITED TO OPERATIONS NOT REQUIRING A CURRENT CASH PAYMENT

	1999	1998
Write-off of deferred cost – nuclear generating station	$ 450	$ -
Depreciation, amortization and decommissioning	189	177
Amortization of debenture discount and expense	4	4
Amortization of unrealized foreign exchange	22	12
Disposal of nuclear fuel consumed during the year	(1)	(3)
Interest on plant decommissioning and irradiated fuel management	11	14
Early retirement and retirement allowance programs	4	2
	679	206
Transfer from fuel channel removal account	(9)	(22)
	$670	$184

17. FINANCIAL INSTRUMENTS

Forward Exchange Contracts

At March 31, 1999, the Corporation had outstanding forward exchange contracts, representing a net commitment to purchase US$ 71 million (1998 – US$ 54 million). The weighted average rate of exchange protected by these contracts is Cdn $1.5227.

The fair value of forward exchange contracts as at March 31, 1999 is Cdn $108 million (1998 - $76 million).

Fuel price swap agreements

At March 31, 1999, the Corporation had outstanding oil swap contracts totaling $27 million (1998 - $25 million) maturing over the next year. Of the total, $12 million (1998 - $13 million), constitutes a swap contract entered into on behalf of a customer. All gains and losses associated with this contract accrue to the customer.

Under the agreements, the Corporation exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price for the associated fuel. The differential to be paid or received is reflected in the cost of fuel.

If the outstanding swap contracts for which gains or losses accrue to the Corporation had been closed out at March 31, 1999, the net income (gain) would have been US $1 million.

17. FINANCIAL INSTRUMENTS (continued)

Fair value of debt and sinking funds

The estimated fair value of long-term debt as at March 31, 1999 is $3,970 million compared to a book value of $3,380 million (1998 - $4,077 million compared to $3,462 million). The estimated fair value of all sinking funds as at March 31, 1999 is $395 million compared to a book value of $361 million (1998 - $394 million compared to $358 million).

18. COMMITMENTS

Belledune Wharf

The Corporation has entered into a twenty year operating lease, expiring in 2013, with a twenty year renewal option for the port facility at Belledune. This lease provides for annual charges of approximately $4.5 million.

Courtenay Bay Generating Station

The Corporation has entered into a development agreement with a third party for re-powering the existing 100MW unit to a 280MW combined-cycle natural gas unit for operation in 2001. The Corporation will contribute site infrastructure and will contract to purchase the electric output during the winter months over a 20 year contract term.

19. CONTINGENCY

N.B. Coal has an ongoing environmental responsibility to treat acidic water drainage from an inactive mine. Ongoing cost of treatment is approximately $.5 million per year.

20. YEAR 2000

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure that could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

21. COMPARATIVE FIGURES

Certain 1998 figures have been reclassified to conform with 1999 financial statement presentation.

Exhibit h

Deloitte &
Touche

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CONSENT OF DELOITTE & TOUCHE

I hereby consent to the inclusion of the report of Deloitte & Touche on the financial statements of New Brunswick Power Corporation for the fiscal year ended March 31, 1999 as Exhibit (g) to the Annual Report on Form 18-K of the Province of New Brunswick for the fiscal year ended March 31, 1999 and to the incorporation by reference of such report in the Registration Statement No. 33-89790 of the Province of New Brunswick.

/s/Deloitte & Touche

Chartered Accountants
Saint John, New Brunswick
December 14, 1999

Exhibit i

Chartered Accountants
Canadian Member Firm of
Grant Thornton International

Grant Thornton

A Financial Review of the Province of New Brunswick September 30, 1999

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Section I(a)

Preamble and Observations

With the world's economies changing at such an escalating pace, it is imperative smaller economies such as that of New Brunswick be constantly aware of positioning and opportunities. A central feature of any strategy, which purports to maintain "awareness" as a basic ingredient for identifying opportunities, is that awareness must include a constantly updated and objective analysis of our strengths and weaknesses as an economy. One must continually ask questions such as;

- What were our strengths yesterday?
- What are our strengths today?
- What will our strengths be tomorrow?

Similar questions must be asked about our weaknesses. Only once these questions are answered (to the extent possible) can a meaningful overall strategic direction for the Province be defined.

"Awareness" also means that changes are monitored and evaluated relative to the strengths and weaknesses of our Province. It follows that change has to be identified. This change/intelligence gathering exercise is now recognized as being essential to many private sector organizations and one that should be essential to public sector organizations such as the Province of New Brunswick.

Finally, "awareness", which includes an analysis of strengths, weaknesses and change, must be communicated on a timely basis to decision makers.

Observation

The Province of New Brunswick should organize and formalize an overall planning/change management function such that activities are coordinated, managed, communicated and executed. As part of this undertaking the Province should immediately begin an analysis of past, present and future strengths and weaknesses of our Provincial economy, including:

- The educational sector
- Technology based industries
- The forest industry
- The mining industry
- The fishing industry
- New resource based industries such as those based on natural gas.
- The environment
- Tourism

During the course of our review we had constant interactions with the Provincial Civil Service. As indicated in our covering letter, one of our dominant impressions of this group is that they are very professional and of a very high quality. However, it is our impression the average age of the Civil Service is increasing and a coordinated replacement/training program for succession does not appear to be in place. We feel that such a program should be implemented very soon if the quality of the Civil Service is to be maintained. While we do not support increasing the size of the Civil Service we do acknowledge that some short-term increase may be required to begin such a program.

Observation

It appears to us, the New Brunswick Civil Service is "greying" at a rapid rate with no coordinated plan in place for replacement of the talent and skills of the soon to be retiring individuals. The Province should consider an overall review of present and future human resource needs and proceed accordingly.

Section 1(b)

Executive Summary

In accordance with the terms of our appointment to conduct a financial review of the Province of New Brunswick and based on the scope of our review procedures as outlined in the individual project sections of the accompanying report, we offer the following conclusions and resulting recommendations and observations.

Summary of Recommendations and Observations

➢ N.B. Power Asset Write-Down

We conclude some write-down of the carrying value of the capital assets of N.B. Power is appropriate.

Recommendations

We recommend the Government of New Brunswick accept the 1998 write-down of $450 million.

We recommend high priority be given to reassessment of the governance structure between the Government, the Board and management of N.B. Power. Recommended changes arising from the reassessment should be implemented promptly.

We recommend that the approved governance structure include appropriate Government input into the development of strategies for N.B. Power. Any strategies adopted for N.B. Power should have the strong support of the Government, the Board and management.

➢ Hospital Corporations

We have determined the Regional Hospital Corporations are accountable to the Province.

We have concluded the Regional Hospital Corporations are controlled by the Province.

Recommendation

We recommend the Regional Hospital Corporations be consolidated in the Province's financial statements in accordance with the Public Sector Accounting Handbook. Our recommendation is based solely on accounting principles and does not attempt to deal with issues such as governance, behaviour, or other matters.

➢ Adequacy for Provisions for Losses

Royalties Receivable

We have concluded the provision for losses as at March 31, 1999 appears adequate.

Department of Economic Development, Tourism & Culture and Provincial Holdings Limited

Recommendations

We recommend an additional provision for losses of $6.5 million be made against specific accounts.

We recommend a general provision for loan losses also be provided for in the amount of $8.9 million. This method of providing for loan losses is not consistent with the method used by the Department. If a decision is made to implement our recommendation, we further recommend that management, in consultation with the Office of the Comptroller, establish and review a general provision annually, using a methodology which segregates investments/loans by risk profile, and determines provision ratios specific to each profile.

With respect to guarantees, the allowance for loss appears adequate.

Department of Fisheries and Aquaculture

Recommendations

We recommend the loan loss provision be increased by an additional $15.9 million.

Loans should be written off when all avenues of collection have been exhausted.

Loans should be written off in cases where a vessel has been scrapped or sold.

Interest should cease to be charged to loans when they are determined to be uncollectible.

Interest should be charged on the total balance outstanding, including arrears interest.

Payments should be applied to all outstanding interest before being applied to principal outstanding.

The boat values used in setting provisions should be set at a portion of the appraised values and this discount should be monitored and adjusted periodically.

Any inshore loan that is known to be uncollectible should be fully provided for over and above the formula used to set the overall provision.

All loans should be reviewed periodically and the assessment of the loan status should be documented in the files. Consideration should also be given to obtaining future cash flow information to assist in valuing loans.

Property Taxes Receivable

Recommendations

We recommend an additional provision of $8.8 million be provided for with respect to the Hugh John Flemming Forestry Centre.

We also recommend an additional provision of $4.0 million with respect to a percentage provision for the 1998 and 1999 tax years and with respect to the treatment of secured municipal balances.

Department of Agriculture

We have concluded the provision for losses as at March 31, 1999 appears adequate.

➢ Concessionary Component of Low Interest Loans

Conclusion

Based on the information provided to us by the various departments and the Office of the Comptroller, and the recommendations in section 3050, Loans Receivable, of the CICA Public Sector Accounting Handbook, we estimate the value of the concessionary component of low interest loans on the draft financial statements of the Province of New Brunswick to be approximately $18 Million as of March 31, 1999.

➢ Classification of Leases

Conclusions

After review of various information and analysis, we would consider the Fredericton-Moncton Highway, Centracare, and Fredericton North School leases to be correctly classified by the Province as operating leases.

It is our view, the Moncton North (Evergreen Park) School and Miramichi Youth Centre leases should be accounted for as capital leases, not as operating leases which is the present classification in the accounts of the Province of New Brunswick.

➢ Completeness of Reporting Entity

Our review was restricted to those organizations which are in or potentially could be in the reporting entity. We did not address the accounting procedures chosen to include organizations in the entity.

We reviewed the Province of New Brunswick as a reporting entity by analyzing the objectives of government financial statements, definitions of organizations to be included and also definitions for accountability, control and ownership.

Conclusion

It is our view that the financial statements of the Province of New Brunswick will represent a complete and appropriate reporting entity for year ended March 31, 1999 based upon our review of draft financial statements for the year ended March 31, 1999.

➢ Information Technology

Recommendations

We believe the area of information technology management presents the single largest opportunity for the Provincial government to increase the benefit it gets from its information technology expenditures.

We believe the governance and organization of the information and information technology function requires fundamental change. It is our view that the Province should initiate an in-depth process to identify and implement an organizational structure that will use its information technology resources more efficiently.

Efficiencies to be gained from clustering different departmental services that have similar service delivery, information and information technology requirements should be identified.

The Province should review the cost/benefit of implementing stronger standards, an "evergreening" program and a centralized (or virtual) help desk.

We recommend the Province consider creating a new information technology position at the level of Deputy Minister (Deputy Minister of IT) to assist in facilitating the implementation of the aforementioned and other changes and to guide the new department in the future.

➢ Personal and Professional Service Contracts

Recommendations

Personal service contracts

We recommend documentation be maintained in each employee file to support adherence to policy.

We recommend a review be performed, by department, to ensure for active personal service contracts, full time equivalent allocations are available to be charged to or determine what deficiencies exist.

We recommend policy be enforced to require full time equivalent allocations for personal service contracts.

We recommend personal service contracts related to ongoing program service delivery on a long term basis be periodically reviewed to determine if the applicable positions should, more appropriately, be regularized

Professional service contracts

No recommendations

➢ Maintenance

Recommendations

It is our view a total asset management strategy is required for both government owned and leased facilities.

We recommend a review of capital maintenance budgeting procedures with the objective of establishing acceptable performance standards and criteria for both regular and planned maintenance.

We recommend an adoption of policies for the implementation of preventative maintenance programs in all government owned facilities.

We recommend the Province of New Brunswick undertake a technical audit of all major government owned facilities to:

- Evaluate the condition of facilities
- Establish requirements for planned and preventative maintenance requirements
- Establish a long term capital replacement program
- Develop guidelines for spending priorities
- Establish a framework for evaluating future accommodation alternatives

We recommend the Province of New Brunswick undertake a review of the education sector facilities to consider the need for technical audits and establish preventative and planned maintenance guidelines for schools.

We recommend the Province conduct a feasibility study for the renovation and upgrading of the Centennial Building. A review of government accommodation needs should form part of this feasibility study.

We recommend appropriate budget allocations be made to support a properly designed Provincial maintenance program.

➢ Program Announcements

Economic Development ,Tourism & Culture

Generally we found the files reviewed to have been subjected to "proper process".

However, we found a number of instances where there were exceptions to policy. For example, required evidence for a request for financial assistance was not located in six files. Further, in another file a memorandum of understanding was inappropriately drafted and issued. In another instance, the New Brunswick Industrial Development Board minutes, were dated after the Records of Decision of Board of Management and Executive Council and the Order in Council, contrary to policy.

Regional Development Corporation

We noted six instances where funding announcements were made prior to the completion of the review and approval process. This again is contrary to policy.

➢ Federal Transition Funds

Recommendation

In our view, $132 million of HST Transition Funds should have been recognized as revenue by the Province of New Brunswick in its 1998 fiscal year, a further $132 million should be recognized in the 1999 fiscal year and, assuming the conditions continue to be met, $66 million should be recognized in fiscal 2000 and the remaining $34 million in fiscal 2001.

➢ Loans Receivable – Algonquin Properties Limited

Recommendations

We recommend the Province of New Brunswick write-off all of the loans.

The decision to write-off must be done in light of various administrative factors, including whether it is still appropriate to continue to charge interest on the loans.

➢ Department of Labour – Receivables Due to Loan Guarantees

Recommendation

We recommend the applicable receivables in the amount of $2.8 million be written off.

Terms of Reference

"To recommend an amount to record for the impairment of the Nuclear Generating Station at Point Lepreau owned by N.B. Power".

These terms of reference were presented to Grant Thornton at the inception of our review. They have been subsequently revised as follows:

"Should the Government of New Brunswick accept N.B. Power's 1998 fixed asset write-down of $450 million and are there any other observations relative to your review that should be brought to the attention of the Province of New Brunswick"?

Background

In 1997, New Brunswick Power Corporation (N.B. Power) engaged Hagler Bailly Consulting Inc. (Hagler Bailly) to complete a comprehensive analysis of short and long-term technical and economic factors affecting the future performance of the Point Lepreau Nuclear Generating Station (Point Lepreau). The analysis indicates Point Lepreau will not be able to operate until the year 2014 as originally planned without a major refurbishment somewhere around the year 2008. It is not at all certain, at present, that a refurbishment will be financially justified in or around 2008. However, if the refurbishment is done, Hagler Bailly has indicated that the operating life of Point Lepreau would be extended by 25 years to 2032.

As a result of the reduction in the pre-refurbishment life expectancy of Point Lepreau, N.B. Power reduced the carrying value of Point Lepreau by $450 million in its 1998 year end financial statements, being the unamortized capital cost that would remain in 2008. An offsetting deferred charge in the same amount was also recorded by N.B. Power in anticipation of a new revenue stream being identified and authorized specifically to recover the deferred charge.

The Province of New Brunswick (the Province) uses the modified equity method of accounting for N.B. Power. Under this method, the 1998 net equity of N.B. Power was recorded as an asset (Investments) in the amount of $425.3 million on the Statement of Financial Position of the Province and changes in the net equity of N.B. Power were reflected in the Province's Statement of Revenue and Expenditure.

The deferred charge accounting treatment adopted by N.B. Power, with respect to Point Lepreau, resulted in no net change to the earnings of N.B. Power and therefore no reduction in the Province's carrying value of N.B. Power.

The Auditor General of New Brunswick qualified the financial statements of the Province because he concluded there was insufficient evidence to support the recoverable value of the deferred charge. The Auditor General also concluded that the Province should have recognized a reduction in its investment in N.B. Power in the amount of $450 million.

N.B. Power had historically prepared financial statements in accordance with generally accepted accounting principles appropriate for a rate-regulated entity. In recent years, N.B. Power has been moving toward adoption of accounting principles generally accepted in the non-regulated sector as defined by the provisions of the Canadian Institute of Chartered Accountants' Handbook (CICA Handbook). The decision to record the deferred charge was an exception to this movement towards generally accepted accounting principles.

To this point in time, no new revenue stream specifically designated to recover the deferred charge over a future period has been identified and authorized. N.B. Power has indicated that if no new revenue stream was identified by the end of fiscal 1999 the deferred charge would be written off to income at that time.

The energy industry in North America in general and, more specifically, in Atlantic Canada and the eastern seaboard of the United States is likely to undergo significant change over the next number of years. The possible introduction of competition, completion of the natural gas pipeline from Sable Island, significant planned expansion of generation assets in New England and uncertainty about the useful economic life of Point Lepreau all create significant uncertainty about the future. The degree of uncertainty is much higher than has been the situation historically.

Scope of Review Procedures

We reviewed the appropriate provisions of the CICA Handbook which codify generally accepted accounting principles in Canada. In addition we considered accounting practices used by certain entities in rate-regulated industries. We reviewed the report prepared by Hagler Bailly Consulting Inc., the report of the Auditor General of New Brunswick and the Auditor's Report on the financial statements of the Province of New Brunswick. We conducted interviews with senior members of the Government, N.B. Power Board of Directors and management, the Auditor General and members of his office and representatives of Deloitte & Touche, the auditor of N.B. Power. We also reviewed considerable documentation that had been prepared by N.B. Power, senior members of the Office of the Comptroller and Deloitte & Touche analyzing the Point Lepreau situation and the alternative accounting treatments considered. We reviewed various studies and documents which focused on changes in the electrical utility industry, future trends, effects of deregulation and commentary related to the possible future of N.B. Power.

Analysis

In assessing whether the Province of New Brunswick should accept N.B. Power's 1998 fixed asset write-down of $450 million, we considered a variety of factors. In this section we will comment on these factors under the following headings:

Uncertainty
Impairment Calculation
Other Professional Assessments
Export Markets
Capitalization Policy
N.B. Power's Cash Flows
Other Generation Assets

Uncertainty

As is set out in more detail below, the CICA Handbook defines the approach to be adopted in calculating impairment. Applying that approach to Point Lepreau is difficult because of the significant uncertainty regarding many of the components of the calculation. More specifically, it is difficult to determine, with precision, the date on which the facility will require a major refurbishment or shut down. In the period prior to refurbishment or shut down, it is difficult to determine the degree of utilization that will be achievable from the facility and the cost of required maintenance. It is similarly difficult to estimate the cost of decommissioning the facility and the cost of refurbishment in the event a decision to refurbish is made. The extent of uncertainty is well documented in the Hagler Bailly report which states *"uncertainty dominates current estimates of total going-forward costs"*.

Accordingly, in calculating any impairment in the value of Point Lepreau there are many variables for which there is a broad range of possible outcomes and with respect to which small differences in assumptions lead to large changes in computed results. In the presence of this magnitude of uncertainty, it is not possible to compute an amount for impairment that is reasonably precise and which has a high probability of reflecting what will actually happen.

Notwithstanding the foregoing degree of uncertainty, there are some facts that appear to be generally accepted and which suggest there may in fact be impairment at Point Lepreau. The facility has, for most of its life to date, operated at a level well in excess of that originally intended. Although there is uncertainty as to how long it can be economically operated without refurbishment, it appears generally accepted that the point of shut down or refurbishment will be earlier than 2014 (which was the original estimate and the basis for the amortization used to and including fiscal 1998 by N.B. Power).

In addition to the above uncertainty specific to Point Lepreau, there is potential for significant change in the energy industry which could have a major impact on the value of Point Lepreau. Changes include new transmission access regulations, availability of natural gas, development of future natural gas-based operations and changing competitive and regulatory regimes elsewhere throughout North America. In fact, uncertainty about the future of the industry creates uncertainty regarding the value not just of Point Lepreau but also for all of N.B. Power's generation assets.

Impairment Calculation

N.B. Power has provided $450 million for impairment of Point Lepreau. The number is the expected remaining net book value of Point Lepreau in 2008 which is the approximate timing of a possible refurbishment. Selecting the book value at the time of refurbishment as the amount of the impairment is not consistent with the rules for calculating impairment in accordance with the CICA Handbook.

The CICA Handbook states in Section 3060.42:
"When the net carrying amount of a capital asset, less related accumulated provision for future removal and site restoration costs and future income taxes, exceeds the net recoverable amount, the excess should be charged to income".

The net carrying amount is the cost of an asset less accumulated amortization and the amount of any write downs. The net recoverable amount of a capital asset is its estimated future net cash flow from use together with its residual value. Management of N.B. Power subsequently completed a calculation of the impairment of Point Lepreau applying provisions of the CICA Handbook and arrived at an amount of $528 million. In view of the significant imprecision inherent in the impairment calculation, it was decided to leave the write down at $450 million.

Other Professional Assessments

Hagler Bailly completed a comprehensive analysis of the short and long-term technical and economic factors affecting Point Lepreau's future performance and concluded the facility will not be able to operate until 2014, as planned, without a major refurbishment somewhere around the year 2008. In addition, Deloitte & Touche, the auditors of N.B. Power, have examined and accepted both management's calculation of the impairment of Point Lepreau and the $450M write down.

Export Markets

N.B. Power has enjoyed significant contributions from its ability to export excess power. We understand new natural gas generation facilities are being planned or constructed in the eastern United States. These facilities could seriously erode the export market for N.B. Power and accordingly could create impairment of the value of some or all its generation assets.

Capitalization Policy

In the past, N.B. Power prepared its financial statements in accordance with accounting principles appropriate for a rate-regulated entity. These principles permitted the capitalization of many costs that would not have been capitalized under the accounting principles generally accepted in the private non-regulated sector. N.B. Power management has specifically identified $152 million of these costs and has indicated there are more that have not been specifically identified. As a result, the capital assets of N.B. Power include significant amounts that would, under its current application of accounting principles, have been expensed.

N.B. Power's Cash Flows

N.B. Power is presently producing positive cash flow. This cash is expected to be sufficient to both fully fund capital requirements for the next five or more years and significantly reduce long-term debt. Assets that generate cash flows are not commonly written down. At the same time, the threats to N.B. Power's revenue stream outlined previously could eliminate the ability to continue to generate strong cash flow.

Other Generation Assets

Serious questions have been raised by a number of interested parties about the recoverable value of some of the other generation assets of N.B. Power. For example, the Belledune facility experienced cost over-runs and had amounts capitalized, the appropriateness of which has been questioned, particularly in view of the accounting principles presently in effect. Competitive technologies today are purported to be able to produce the same output as Belledune at a much lower capital cost. Concerns have also been raised about other N.B. Power generation facilities. To date, no assessment of the possible impairment of the other generation facilities has been completed by N.B. Power management.

Conclusion

Some of the above factors, including a high degree of uncertainty regarding the actual estimate of impairment of Point Lepreau, the absence of any detailed assessment of possible impairment of other capital assets and the probable ability of N.B. Power, at least for the immediate future, to generate strong cash flow which can be applied to debt reduction, would tend to support a decision by the Province not to accept a write down at this time. However, many of the above factors call into question the carrying value of the capital assets of N.B. Power and therefore the value at which the Province of New Brunswick carries its investment in N.B. Power. Threats from the impact of natural gas generation, potential loss of export markets, increased competition, significant carrying value attributable to capitalization policies no longer being applied and comments from Hagler Bailly and Deloitte and Touche all suggest there may well be impairment of the capital assets of N.B. Power.

Given the inclusion in the carrying value of N.B. Power's capital assets of significant amounts that would have been expensed under the current accounting practice, the prevalent view that the Belledune facility is over valued, and the approval by the auditors of N.B. Power of the write-down of the carrying value of Point Lepreau by $450 million, we conclude some write-down of the carrying value of the capital assets of N.B. Power is appropriate. Accordingly we recommend the Government of New Brunswick accept the 1998 write-down of $450 million.

Observations

During the course of our review, we conducted discussions with senior members of the Government, the Board of N.B. Power and N.B. Power management about a wide variety of issues concerning N.B. Power, its administration and its future. Our terms of reference call for us to make observations, relative to our review, that we believe should be brought to the attention of the Province of New Brunswick. In this regard, we have the following observations:

It is apparent that the provision of an adequate, dependable supply of power at a competitive price is critical to the development and future prosperity of New Brunswick. The degree of uncertainty about the future of the energy industry has never been greater. This uncertainty significantly increases the need and challenge of devising an appropriate strategy for N.B. Power.

We have the perception that Government is not well informed about N.B. Power's strategy going forward.

It also appears from our discussions, there is not a clearly articulated and communicated strategy for N.B. Power nor is there consensus among the Government, N.B. Power Board, and N.B. Power management on what constitutes the appropriate strategy and direction.

The greater the uncertainty about the future, the greater the importance of an appropriate governance structure and an effective working relationship between Government, the Board of N.B. Power and its management. Similarly, the greater the uncertainty about the future, the greater the need for appropriate consensus on strategic and operational plans.

Recommendations

We recommend high priority be given to a reassessment of the governance structure between the Government, the Board and management of N.B. Power. Recommended changes arising from such a reassessment should be implemented promptly.

We recommend that the approved governance structure include appropriate Government input into the development of strategies for N.B. Power. Any strategies adopted for N.B. Power should have the strong support of the Government, the Board and management.

Hospital Corporations

Terms of Reference

"To provide a recommendation about the accounting treatment of Regional Hospital Corporations in the Province's financial statements".

Background

In researching the topic we have referred to the Public Sector Accounting Handbook (PSAB Handbook), the Hospital Act and its regulations, the Hospital Services Act and its Regulations, Hospital Corporations' financial statements and various correspondence.

It should be recognized there is no one common treatment of Health Authorities in the Provinces' and Territories' financial statements. In a recent cross Canada survey of reporting entities by the Comptroller General of British Columbia, it is reported only two jurisdictions currently include Health Authorities in their financial statements. It is also reported to be currently under review in other jurisdictions.

The Canadian Institute of Chartered Accountants has authorized the Public Sector Accounting Board (PSAB) to issue guidance with respect to auditing and accounting matters in the public sector, in order to serve the public interest by strengthening and harmonizing financial reporting, accounting and auditing in the public sector. We have used PSAB as the primary authoritative voice on public sector matters.

In June 1996 PSAB published two pertinent and directive sections in its PSAB Handbook.

These are:

1. *"The government reporting entity should comprise the organizations that are accountable for the administration of their financial affairs and resources either*

to a minister of the government or directly to the legislature, or local government council, and are owned or controlled by the government". (PS 1300.07)

2. *"Government financial statements should consolidate the financial statements of organizations comprising the government reporting entity, except for government business enterprises" (PS 1300.20).*

   The PSAB Handbook defines a government business enterprise as *"an organization having all the following characteristics"*, including *"it can, in the normal course of its operations, maintain its operations and meet its liabilities from sources outside the government reporting entity"*

   Given the substantial government funding of New Brunswick 's hospital corporations operations, it can clearly be determined the Regional Hospital Corporations are not government business enterprises.

The PSAB Handbook goes on to give guidance with respect to accountability, and ownership or control.

Accountability

Regarding accountability, paragraph 1300.09 states: *"Evidence of accountability may be embodied in legislative provisions that require a government organization to answer for how it discharged its responsibilities. Government organizations are not only answerable for demonstrating compliance with funding arrangements, or government regulations, but also for management's overall actions, operations and administration".*

Control

Regarding control, paragraphs 1300.14 and 1300.15 state: *"A government controls an organization when, without requiring the consent of others or changing existing legislative provisions, it has the authority to determine the* *financial and operating policies of that organization. The authority of a government to determine the financial and operating policies of an organization allows it to establish the fundamental basis for the conduct of the organization's financial affairs, as well as the deployment of its resources".*

"Evidence of control may be found in legislative provisions including regulations and bylaws, that provide the government with the authority to:

(a) determine the revenue-raising, expenditure and resource allocation policies of the organization; or

(b) appoint a majority of the organization's governing board or its senior management".

"A government may choose not to exercise its authority or actively participate in the implementation of its policies; nevertheless, control exists by virtue of the government's ability to do so. Further, a government does not need to manage the organization's activities on a day-to-day basis to control the organization. It is the government's existing authority to determine the policies governing those activities that constitutes control".

Ownership

Lastly, regarding ownership, paragraphs 1300.11 to 1300.13 state *"A government owns an organization when it has created or acquired the organization and, directly or indirectly, holds:*

(a) a majority of the organization's shares carrying the right to appoint at least a majority of the members of the board of directors; or

(b) the organization's assets such that the government has an ongoing right to access them".

It should be noted for clarification that a government entity must be accountable to, and either owned or controlled by, the government in order to be required to be included in the government's financial reporting.

Scope of Review Procedures

In order to determine whether the Province's financial statements should include the Hospital Corporations, we reviewed the Hospital Act and its Regulations, and the Hospital Services Act and its Regulations to ascertain whether the Hospital Corporations are accountable to the Province and either controlled or owned by the Province.

Analysis and Conclusions

(I) Accountability

We have determined the Regional Hospital Corporations are accountable to the Province and provide the following in support of our position.

A) In support of government organizations being answerable for demonstrating compliance with funding arrangements.

1. The Hospital Act states

(a) Per Section 25(2)

"A hospital corporation shall

(a) maintain books, accounts and accounting systems and perform audits in accordance with the regulations,

(b) operate within the budget approved by the Minister under the Hospital Services Act,

(c) submit an annual report, including a financial statement in such form and containing such information as may be required by the Auditor General and an auditor's report on the financial statement, to the Minister on or before the thirty-first day of July in each year for the proceeding fiscal year, and..."

(b) Per Section 35(1)(u)

"The Lieutenant-Governor in Council may make regulations.... respecting books, accounts and accounting systems to be maintained and the audits to be performed by hospital corporations".

(c) Per section 35(2)

"The Lieutenant-Governor in Council may declare, for such time or times as the Lieutenant-Governor in Council considers appropriate, all or any of the regulations to be in force with respect only to:

(a) any one or more hospital corporations or hospital facilities,

(b) any one or more classes of hospital corporations or hospital facilities".

2. The Hospital Services Act states

Per Section 4(h) *"The Minister may take such steps as he deems necessary for the following purposes.... to determine the amounts to be paid to hospital corporations and to pay hospital corporations for entitled services provided to persons under the hospital services plan and to make retroactive adjustments with hospital corporations for underpayment or overpayment for* *entitled services according to the cost as determined in accordance with this Act and the regulations…".*

3. New Brunswick Regulation 84-167 under the Hospital Services Act states

   19(1) "To qualify for payments under the hospital services plan, an approved hospital corporation shall submit annually to the Minister on a prescribed form not later than the date prescribed by the Minister, a proposed annual budget for the hospital corporation for the ensuing fiscal year".

   19(2) "The budget of an approved hospital corporation shall indicate, as nearly as may be calculated, the estimated cost of providing services".

   19(3) "The Minister may at any time require an approved hospital corporation to furnish further statements, reports and other evidence relating to the operation of the hospital corporation and every hospital corporation shall comply with such requirements as may be prescribed by the Minister".

   20. The Minister shall
   (a) "approve a budget for each approved hospital corporation;
   (b) set the rates for in-patient services for each hospital facility operated by an approved hospital corporation to be used for charging non-entitled persons for such services;
   (c) set the rates for the direct charges required under section 13;
   (d) set the rates for out-patient services; and
   (e) notify each approved hospital corporation of the decision and set the date from which such decision shall be implemented".

(B) In support of government organizations being answerable for management's overall actions, operations and administration.

There are many sections of the Acts and Regulations which lend evidence to the above:

1. The Hospital Act states

   (a) Per sections 34(3) to 34(5) *"The Minister may establish parameters and issue directions in relation to the planning, organization, management and delivery of hospital services by hospital corporations.*

   The Minister may make an approval given by the Minister under this Act or the regulations subject to such terms and conditions as the Minister considers appropriate".

   (b) Section 35(1) goes on to state *"The Lieutenant-Governor in Council may make regulations …*

   - *j) respecting the appointment, powers, privileges and duties of officers, chief executive officers, medical staff and other staff and employees of hospital corporations;*
   - *k) respecting the establishment, construction, alteration, operation, maintenance and repair of hospital facilities;*
   - *l) respecting equipment in hospital facilities;*
   - *m) respecting safety in hospital facilities;*
   - *n) respecting the classification and grading of hospital corporations and hospital facilities;*
   - *o) respecting standards for hospital facilities and hospital services;*
   - *p) respecting the inspection, control, government, management, conduct, operation and use of hospital facilities;*
   - *q) respecting the admission, care, conduct and discharge of patients or any class of patients;*
   - *r) respecting the classification of patients;*

s) *respecting records to be maintained for patients, including the contents of the records, the preparation, maintenance, storage, removal and destruction of the records and the confidentiality and disclosure of the records;*

t) *respecting additional records to be maintained, and reports and returns to be made by hospital corporations";*

(c) Section 35(2) states *"The Lieutenant-Governor in Council may declare, for such time or times as the Lieutenant-Governor in Council considers appropriate, all or any of the regulations to be in force with respect only to*

(a) *any one or more hospital corporations or hospital facilities,*

(b) *any one or more classes of hospital corporations or hospital facilities".*

2. Hospital Act Regulation 48 says *"The Minister may visit a hospital facility at any time for the purpose of an inspection or any inquiry regarding the physical plant, equipment and furnishings, operations or the general administration of the hospital facility".*

3. Hospital Services Act Regulation 19(3) says *"The Minister may at any time require an approved hospital corporation to furnish further statements, reports and other evidence relating to the operation of the hospital corporation and every hospital corporation shall comply with such requirements as may be prescribed by the Minister".*

(II) Control

We have determined the Regional Hospital Corporations are controlled by the Province and provide the following in support of our position:

(A) In support of the government having the authority to determine the revenue-raising, expenditure and resource allocation policies of the Regional Hospital Corporations.

1. The Hospital Act

   (a) Limits who may establish and operate a hospital in the Province. Section 16(1) and 16(2) state *"No person other than a hospital corporation shall establish, operate or maintain a hospital facility in the Province.*

   A hospital corporation shall not establish, operate or maintain a hospital facility without the prior written approval of the Minister".

   (b) Limits the services to be provided by a hospital corporation. Section 17 states *"A hospital corporation shall not deliver a hospital service without the prior written approval of the Minister".*

2. The Hospital Services Act has the ability to determine the amounts paid to hospital corporations through section 4(h) which states *"The Minister may take such steps as he deems necessary for the following purposes…to determine the amounts to be paid to hospital corporations and to pay hospital corporations for entitled services provided to persons under the hospital services plan and to make retroactive adjustments with hospital corporations for underpayment and overpayment for entitled services according to the cost as determined in accordance with this Act and the regulations".*

   In addition section 9(1) states *"The Lieutenant-Govemor in Council may make such regulations as may be deemed necessary for the following purposes:*

(a) establishing a hospital services plan".

3. The Hospital Services Act Regulations, section 20, states the Minister shall *"approve a budget for each approved hospital corporation".*

Given the above, the Province has the ability to control who establishes and operates a hospital corporation, the services provided by that hospital corporation, the establishment of a health service plan, the budget for the hospital corporation and the amounts to be paid to hospital corporations.

(B) In support of general control

The Public Sector Accounting Handbook per 1300.14 states *"A government controls an organization when, without requiring the consent of others or changing existing legislation, it has the authority to determine the financial and operating policies of that organization".* The PSAB Handbook goes on to say in 1300.15 *"A government may choose not to exercise its authority or actively participate in the implementation of its policies; nevertheless, control exists by virtue of the government's ability to do so. Furthermore, a government does not need to manage the organization's activities on a day-to-day basis to control the organization".*

1. The Hospital Act

(a) Section 29(1) of the Act states *"The Lieutenant-Governor in Council may appoint a trustee to whom and in whom shall be transferred and vested on the appointment, without further action, all rights, powers, duties and responsibilities of the board of trustees of a hospital corporation for such period as the Lieutenant-Governor in Council considers fit, if, in the opinion of the Minister, the board of trustees*

(i) is not functioning effectively, or

(ii) fails to comply or to ensure that the hospital corporation complies with any provision of this Act or the regulations, or with parameters established or directions issued by the Minister, within the period of time specified by the Minister at the time the Minister notifies the board of trustees of the requirement to comply".

This section clearly gives the government the authority to replace a board of trustees.

(b) Section 14(3) states "*Hospital corporation by-laws have no force or effect until they are approved by the Minister*". Clearly then, all Regional Hospital Corporations by-laws have no effect until approved by the Minister.

(c) Section 35(2) states "*The Lieutenant-Governor in Council may declare, for such time or times as the Lieutenant-Governor in Council considers appropriate, all or any of the regulations to be in force with respect only to:*

(a) any one or more hospital corporations or hospital facilities,

(b) *any one or more classes of hospital corporations or hospital facilities*".

2. Hospital Services Act

Section 4(h) states " *The Minister may take such steps as he deems necessary for the following purposes…to determine the amounts to be paid to hospital corporations and to pay hospital corporations for entitled services provided to persons under the hospital services plan and to make retroactive adjustments with hospital corporations for underpayment and overpayment for entitled services according to the cost as determined in accordance with this Act and the regulations*".

(III) Ownership

> Because we have determined the Province has control over the Regional Hospital Corporations, and because the PSAB Handbook requires a government to only own or control, it was not necessary to continue and review ownership issues.

Summary

In summary, we conclude the Regional Hospital Corporations have significant accountability to the Province on a wide variety of financial and managerial matters. We also conclude the Province has the authority to exercise ultimate control over any Regional Hospital Corporation, particularly given the very broad circumstances available to the Lieutenant-Governor in Council in appointing a trustee to replace a board of trustees.

Recommendations

We recommend the Regional Hospital Corporations be consolidated in the Province's financial statements in accordance with the Public Sector Accounting Handbook. Our recommendation is based solely on accounting principles and does not attempt to deal with issues such as governance, behaviour, or other matters.

Adequacy of Provisions for Losses

Terms of reference

"To determine the adequacy of the provision for losses in the following areas:

	Section Reference	Page
➢ *Royalties receivable*	*A*	*34*
➢ *Loans and guarantees issued under the Economic Development Act*	*B*	*35*
➢ *Loans and guarantees issued by Provincial Holdings Ltd.*	*B*	*35*
➢ *Loans issued under the Fisheries Development Act*	*C*	*42*
➢ *Property taxes receivable*	*D*	*54*
➢ *As also assigned by Steering Committee Loans issued under Agricultural Development Act"*	*E*	*58*

The carrying value of all loans, advances and investments recorded and reported as assets in the Province's financial statements, continue to have a significant impact on the Province's net debt position.

The Province accounts for loans, advances, guarantees and receivables in the following manner.

1. Loans and advances are recorded as assets on the Province's balance sheet.
2. Interest on loans and advances is recorded as revenue and impacts the net debt position of the Province. This interest receivable is recorded as an asset on the Province's balance sheet.
3. Each year a provision for losses is determined and the required adjustment impacts the net debt position.

Should an adequate provision for losses not be set up by the Province, the net debt will be understated.

With respect to the loans, advances, receivables and guarantees, as set out in the terms of reference, our review was limited to the amounts recorded in the draft financial statements of the Province for year ended March 31, 1999 as follows:

Selected
Financial Statement Schedules
Province of New Brunswick

	($ millions)	
	1999	1998
Schedule 1		
Interest receivable		
Economic Development Act	$ 3.4	$ 4.3
Provision for losses	(3.0)	(2.8)
	$ 0.4	$ 1.5
Fisheries Development Act	$ 20.3	$ 18.8
Provision for losses	(12.8)	(11.3)
	$ 7.5	$ 7.5
Agricultural Development Act	$ 0.9	$ 0.5
Provision for losses	-	-
	$ 0.9	$ 0.5
Schedule 2		
Taxes receivable		
Real property tax	$304.6	$294.8
Provision for losses	(45.3)	(33.2)
	$259.3	$261.6
Royalties and stumpage on timber	$ 21.3	$ 11.5
Provision for losses	(0.4)	(0.3)
	$ 20.9	$ 11.2
Schedule 5		
Loans and advances		
Economic Development Act	$113.6	$115.9
Provision for losses	(22.8)	(19.8)
	$ 90.8	$ 96.1
Provincial Holdings Ltd.	$ 22.1	$ 21.9
Provision for losses	(10.2)	(10.3)
	$ 11.9	$ 11.6
Fisheries Development Act	$ 72.5	$ 71.5
Provision for losses	(45.8)	(42.6)
	$ 26.7	$ 28.9
Agricultural Development Act	$ 14.6	$ 11.2
Provision for losses	(5.7)	(5.3)
	$ 8.9	$ 5.9
Note 14 (c)		
Guarantees		
Economic Development Act	$ 60.0	$ 26.0
Provincial Holdings Ltd.	7.5	7.5
	67.5	33.5
Provision for losses	$ (12.0)	$ (6.8)

General Comments on Scope

To comment on the adequacy for the provision for losses we performed the following review procedures.

- Met with either the Deputy Ministers, or their designates, as well as other members of each department being subject to our review.
- Obtained lists of all loans, advances etc., as well as the allowance for doubtful accounts.
- Discussed the methods and calculations used to determine the allowance for doubtful accounts.
- Met with the Provincial Comptroller and Director of Accounting Services to obtain their opinions as to the adequacy.
- Prepared an independent review of provision for losses, considering collectibility, payment history and security.

Royalties Receivable

Background

The Department of Natural Resources and Energy collects royalties and stumpage under the Crown Lands and Forest Act. Royalties collected are determined based upon species, quantities and end-use of the resource harvested. This information is reported to the department by the forestry operators and subject to monitoring and audit by the department.

Financial Statement Amounts:

	($ Millions) Draft March 31, 1999	*($ Millions)* March 31, 1998
Royalties and stumpage on timber	$21.3	$11.5
Provision for losses	(0.4)	(0.3)
	$20.9	$11.2

Scope of Review Procedures

We reviewed the aged listing of timber royalties receivable at March 31, 1999, and compared this listing to the aged listing as of July 31, 1999.

We confirmed with staff that no accounts had been written-off between March 31, 1999 and July 31, 1999.

We determined that of the $21.3 million recorded as receivable at March 31, 1999 nearly $21 million had been collected by July 31, 1999. The remaining balance was adequately provided for in the year end allowance for doubtful accounts.

Conclusion

The provision for losses as at March 31, 1999 appears adequate.

Department of Economic Development , Tourism and Culture and Provincial Holdings Limited

Background

General Comments on Scope

The Department of Economic Development, Tourism and Culture (EDTC) administers financial programs under the *Economic Development Act* and also administers the affairs of Provincial Holdings Limited (PHL), a provincially owned Crown Corporation.

The Minister of Economic Development, Tourism and Culture also administers the immigrant investment program of the New Brunswick Economic Development Funds. These funds do not fall within our terms of reference and have therefore not been reviewed.

Under the terms of the *Economic Development Act*, the Minister provides financial assistance to aid and encourage the establishment or development of industry in the Province. As we understand, amendments to the Act in recent years have expanded the scope of eligible investments, reducing the utilization of PHL, which has traditionally been to provide assistance in means not provided for by the Act.

Each loan, equity investment and guarantee issued by EDTC or PHL is monitored by a staff member. The monitoring plan is tailored to the risk of the associated investment and, as a minimum, includes review of current financial information of the borrower or investee.

Loss reserves are established by management on a specific item by item basis, upon consultation with the staff member monitoring each loan/guarantee. No general provisions are made for loans/guarantees, which are not specifically identified as requiring a specific allowance.

Financial statement amounts:

	($ millions) *Draft March 31, 1999*	*March 31, 1998*
Loans and advances (Schedule 5)		
Economic Development Act	$113.6	$115.9
Provincial Holdings Ltd.	22.1	21.9
Interest receivable (Schedule 1)		
Economic Development Act	3.4	4.3
	$139.1	$142.1
Guarantees (Note 14c)		
Economic Development Act	$ 60.0	$ 26.0
Provincial Holdings Ltd.	7.5	7.5
	$ 67.5	$ 33.5

Scope of Review Procedures

Write-offs

Management makes provisions against loans believed to be uncollectible. Accounts can only be written off after approval is obtained from the Board of Management. With one exception, there have been no Board of Management approved write-offs since fiscal 1996.

Principal, interest and service fee arrears

We reviewed interest arrears listings at June, 1999 to identify valuation problems not otherwise identified by management. Selected individual items were discussed with management. Significant findings from this review are as follows:

- Provisions have been set up for the vast majority of significant interest and service fees receivable

- A number of venture capital loans under $500,000 individually, representing a total of approximately $4.6 million were transferred to EDTC in 1998 from PHL
- A substantial number of these items are in arrears, or as of yet, have not commenced scheduled repayments and specific provisions have been taken against these accounts

These venture capital loans have been dealt with as part of our recommended general provision below.

Specific provisions

We sampled a number of investments and guarantees representing significant net exposure to losses. Our sampled items represented $29 million of loans, $22 million of equity investments and $11 million of loan guarantees. Management's provision for loss on these items in total amounted to $5 million.

We concurred with the conclusions of management on most items within the sample. Significant findings and conclusions within the sample are:

- One company representing exposure of approximately $9 million including a $1 million dollar loan guarantee was, in our opinion, under-reserved by $3 million. This conclusion was based primarily on new information which came to light subsequent to the date of management's initial provision estimate. Management had originally provided a $5 million allowance for loss on this investment and has subsequently revised their estimate.

- One group of companies, representing total exposure in excess of $10 million, was under-reserved based on our estimates of the balance of probabilities of collection. We estimated the appropriate provision for this group to be $3.5 million. Management had not originally made any provision for this group.

General Provisions

EDTC does not establish general provisions against loans not specifically identified as being in doubt of collection.

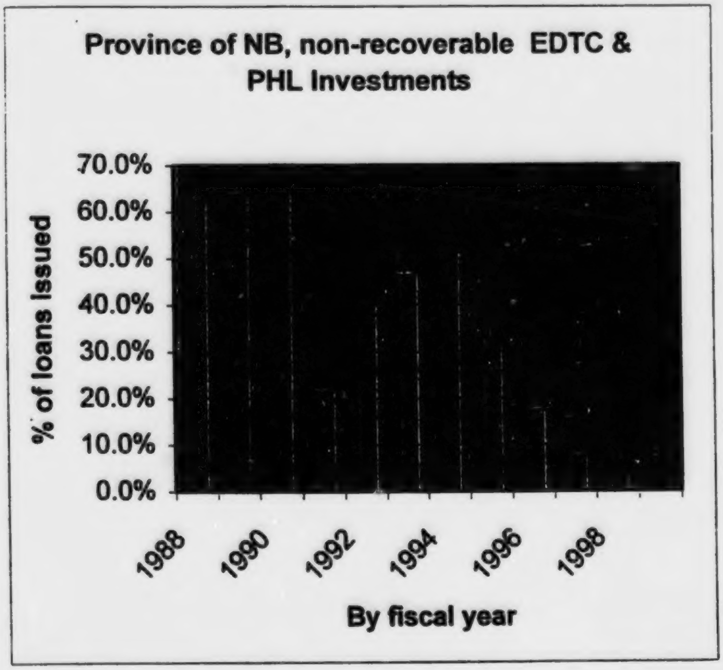
Standards for Public Sector bodies, are set by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB Handbook(PSAB Handbook) in section 3050 states "*that loans receivable should be carried at the lower of original cost or net realizable value*", and that valuation allowances/loss provisions "*should be used to reflect collectibility and risk of loss*". The PSAB Handbook also states that *"provisions can be made on an individual loan basis, or for a particular class of loans*". The PSAB Handbook further states that the lender should consider several factors including past collection experience.

Further guidance is available from the federal Office of the Superintendent of Financial Institutions (OSFI). While this guidance is not specifically for government entities, it does provide guidance on implementation of a methodology only referenced in general terms by PSAB. OSFI recommends a combination of specific and general provisions for losses on loan portfolios. OSFI requires specific allowances for loans identified as impaired, and a general allowance for those not specifically identified as impaired. The general provision is a judgmental estimate made after considering the institution's historical loss ratios, credit risk factors related to the portfolio, and the current phase of the economic cycle. The OSFI contends that a strong economy makes identification of likely impairment difficult, and thus recommends an increase in the general provision during upturns in the economy and decreases as the economy declines.

To test the validity of the department's methodology we have assessed the impact of calculating a general provision, by reviewing loss histories for loans/investments issued in the fiscal years 1988 through 1999. We compared total loans/investments made each year to the amount of those loans later deemed to be non-recoverable (either written-off or fully allowed for as non-collectible as of March 31, 1999). We found that of all loans made in the fiscal years ended 1988 through 1990, 63.4% of the original loan principal was determined non-recoverable. Since repayment terms for a substantial portion of the portfolio at any given time is well beyond 5 years, this population reflects the final results of a relatively mature loan portfolio.

We also calculated the loss ratio for loans/investments issued during the extended period of fiscal 1988 through fiscal 1994, and calculated a total of 49.8% as non-recoverable. The years 1991 through 1994 represent a portfolio that is semi-mature and still open to possible deterioration prior to full collection. Years beyond 1994 have been excluded from the historical statistics since they are still subject to the possibility of substantial future deterioration due to the lack of maturity of this portion of the portfolio.

It should be noted, the 1991 loss ratio at 21.3% would become 56.5% had we included the impact of our additional specific provision for $3 million, on a 1991 investment discussed previously, in our review of specific provisions.



We compared these ratios to the ratios created by management's provision for losses for the years1995 through 1999, which was less than 14% of loans issued. This substantial difference in projected loss ratio could be the result of several factors including decreased risk profiles within the loan portfolio, improved credit methods or loan security, a fundamental long term improvement in the New Brunswick economy, or the result of an inadequate provision for loan losses as of March 31, 1999.

Based upon our review procedures we have concluded that at least a portion of this difference relates to an inadequate general provision caused mainly by the policy of making specific provisions only. We estimate the shortfall to be between $6 million and $21 million.

Guarantees

We performed similar analytical procedures with respect to guarantees issued in all years from fiscal 1988. We compared total loan guarantees issued each year to actual net payouts and provisions to date.

We found that losses on guarantees issued during fiscal years 1988 through 1990 equal 17.5% of the guarantees originally issued. For the more extended period of 1988 through 1994 we found the overall loss ratio to be 7.3%. This population included a number of individually significant items which were large enough to skew the results of our review and our resulting conclusions. We reperformed the analysis eliminating individual items greater than $5 million, and found the loss ratio on the remaining items to be 11.7% for each of the 1988-1990 and 1988-1994 periods.

The loss ratio created by management's provision made on specific accounts (under $5 million) for the years 1995 through 1999 totaled 20.2%. While this ratio exceeds historical results it was deemed appropriate based upon the individual items reserved. Based on our review the allowance for loss provisions on guarantees appears adequate.

Recommendations

Based on our review procedures, we believe the provision for losses on loans and advances should be increased by $15.4 million. This increase in the provision consists of a $6.5 million increase in the specific provision and an $8.9 million increase in the general provision.

($ millions)

	Draft Financial Statements March 31, 1999	Grant Thornton's Recommendation
Principal		
Economic Development Act	$ 113.6	$ 113.6
Provincial Holdings Ltd.	22.1	22.1
	135.7	135.7
Interest	3.4	3.4
	$ 139.1	$ 139.1
Provision for losses		
Principal	$ 33.0	$ 48.4
Interest	3.0	3.0
	$ 36.0	$ 51.4

We recommend that management, in consultation with the Office of the Comptroller, establish and review a general provision annually, using a methodology which segregates investments by risk profile, and determines provision ratios specific to each profile.

We recommend that the previous policy of the annual approval of write-offs by the Board of Management be re-instituted and the present portfolio of fully provided/inactive accounts be reviewed and addressed as part of the write-off process for the fiscal year ended March 31, 1999.

Department of Fisheries and Aquaculture

Background

The Department of Fisheries and Aquaculture administers the lending program authorized by the Fisheries Development Act.

Loan assistance may be provided for new vessel construction, major refits or overhaul of existing vessels, the purchase of used fishing vessels, new on-board equipment or for purposes deemed to be in the aid of and to encourage the development of fisheries in the Province of New Brunswick. In addition the Department provides loans or loan guarantees for marine shell-fish and / or fin-fish cultivation operations in the Province of New Brunswick.

Department of Fisheries and Aquaculture
Program History
($ Thousands)

	March 31, 1996-1997	March 31, 1997-1998	March 31, 1998-1999
Beginning balance	$ 96,215	$ 92,037	$ 90,265
New loans	2,793	3,761	4,484
Interest and other charges	864	1,270	1,498
Repayments	(7,533)	(5,379)	(3,292)
Write offs	(302)	(1,424)	(124)
Ending balance	$ 92,037	$ 90,265	$ 92,831
Provision for losses	$ 52,851	$ 53,937	$ 58,630
Provision as % of loans	57%	60%	63%

Scope of Review Procedures

The amount outstanding as at March 31,1999 represents 602 loans. Accordingly, our review procedures included a general review of the lending process, review of selected files, discussion of the status of various selected loans, repayment schedules, boat values, analysis of realized amounts compared to boat values used to set the loss provision and the adequacy of the provision for loss. Our review procedures consisted of enquiry, analytical procedures and discussion of information provided by the Department of Fisheries and Aquaculture.

Our findings, observations, recommendations and comments on the adequacy of the provision for losses in regard to the loans and advances of the Department of Fisheries and Aquaculture follow.

Financial Statement Amounts:

Included in the amounts outstanding to the Department of Fisheries and Aquaculture is interest receivable which amounted to $20,320,907 as at March 31,1999. This outstanding interest represents 22% of the total loans and advances outstanding to the Department. Total assets related to the Department of Fisheries and Aquaculture lending program as at March 31,1999 are summarized below.

Financial Statement Account	
Loans and Advances	$72.5 Million
Interest Receivable	20.3 Million
Total	$92.8 Million

Analysis

Loans in arrears

When one or more payments on a loan are in arrears the entire balance can be considered to be in default. The Department's portfolio of active loans (excluding amounts set aside) includes loans totaling $75,021,253 for which one or more payments are in arrears. This indicates that 87% of the total dollar amount of the active portfolio is technically in default.

Accounts to be written off

There have been few accounts actually written off in the recent past. There are loans totaling $2,467,333 from 1996 that are designated "Loans to be written off" remaining on the Department's books. Interest is not being calculated on these loans. There are additional loans totaling $7,507,596 that have been designated as potential write offs.

Loss experience

Over the past four years the Department commenced proceedings to collect on 34 vessel loans totaling $9,046,628. The amount collected on these loans amounted to $1,987,123.This equates to a loss ratio of 78%.

An accepted method of valuing a loan or a portfolio of loans that have become impaired, where the amounts and timing of future cash flows cannot be estimated with reasonable reliability, is to measure the value of the loan by way of the fair value of the security underlying the loan, net of expenses.

We reviewed 11 transactions where vessels were sold or transferred. We compared the value of the vessel used for loss provision purposes at the immediately preceding year end and the second preceding year end to the net proceeds obtained for the vessel. When the proceeds were compared to the immediately preceding year end values, a shortfall in value of 20.7% resulted. When the proceeds were compared to the second preceding year end value estimates, a shortfall in values of 44.0% resulted. The decrease in the shortfall from year two to year one can be explained by the fact that boat values are reduced at year end when staff are aware of a loss that will occur subsequent to year end.

Interest calculations

Interest is not charged on arrears interest. In most lending situations unpaid interest is included in the outstanding loan balance and attracts interest at the prescribed rate. Payments are applied by the Department to arrears principal before current interest. Again, it is customary to apply payments to outstanding interest amounts before principal arrears.

Interest is calculated on loans, even after all avenues of collection have been exhausted, until the loan is written off, except for certain loans noted previously as "designated to be written off". While the interest is fully provided for, the amount that is finally written off is higher than needed.

Insurance premiums

Department policy requires that all vessels be insured with the loss payable to the Province. In discussions with Department staff it was determined that the amount of insurance premiums being paid by the Department and charged to the loan balance has decreased significantly in recent years. Our limited review of files revealed only one instance where insurance premiums were paid by the Department.

The following is a summary of the loan portfolio by category as determined by the Department.

Inshore loans

Number of loans	484
Principal and interest	$11,552,798
Provision for loss	$ 2,936,541
Amount due in arrears	*$ 2,523,747*

Policy No. 1000-06 requires that a loss provision be set by a specific percentage of the total balance of delinquent loans in seven separate categories.

1. more than 4 years (deleted)	100%
2. more than 4 years	75%
3. 3 to 4 years	50%
4. 2 to 3 years	25%
5. 1 to 2 years	15%
6. less than one year	10%
7. current	5%

In fact the department has deviated from the above policy by providing for 100% of all loans with arrears more than 4 years.

A subsequent review of the provision for losses by Department staff in July 1999 indicated that the provision was adequate.

Aquaculture loans

Number of loans	8
Principal and interest	$490,704
Provision for loss	$292,059
Amount due in arrears	*$263,990*

Policy No. 1000-06 requires aquaculture loans to be assessed individually, and a percentage is set for each account as a loss provision.

A subsequent review of the provision for losses by Department staff in July 1999 indicated that the provision should be increased to $321,439 at March 31, 1999 from $292,059, an increase of $29,380.

Weir loans

Number of loans	1
Principal and interest	$59,044
Provision for loss	$59,044
Amount due in arrears	*$58,166*

Policy No. 1000-06 requires weir loans to be provided for at 75% of the total balance of all accounts.

Set aside loans

Number of loans	4
Principal and interest	$4,057,152
Provision for loss	$4,057,152

Policy No. 1000-06 requires the provision for set aside loans to be 100% of the set aside amount as a loss provision.

Three loans totaling $2,371,905 were set aside during the year.

Repossessed loans

Number of loans	1
Principal and interest	$31,856
Provision for loss	$29,542

Repossessed boats are placed in this category and are to be fully provided for.

Loans to be written off

Number of loans	17
Principal and interest	$2,467,333
Provision for loss	$2,467,333

These loans were presented for write off in 1996. The write off has not been approved to date.

Offshore loans

The offshore loan portfolio as defined by the Department, consists of Groundfish, Herring seiners, Offshore-South, Shrimp, and Crab.

Policy No. 1000-06 requires that the provision for losses equals the total account balance less the estimated book value of the vessel.

Groundfish

Number of loans	21
Principal and interest	$18,011,244
Provision for loss	$15,314,149
Amount due in arrears	*$13,815,403*

This section of the loan portfolio decreased by $111,546 from March 31,1998 to March 31,1999. This decrease resulted from applying proceeds from a sale of a vessel of $90,000, payments on two loans of $35,000 and $13,454 added to a loan for interest and insurance premiums. No interest or principal payments have been required on these loans since 1994 due to the moratorium on the groundfishery. Interest was charged in the one isolated case as mentioned above.

A subsequent review of the provision for losses by Department staff in July, 1999 indicated that the provision should be increased to $15,717,206 at March 31,1999 from $15,314,149 an increase of $403,057

Herring seiner

Number of loans	18
Principal and interest	$18,582,555
Provision for loss	$13,391,541
Amount due in arrears	*$12,465,502*

This section of the loan portfolio increased by $957,855 from March 31,1998 to March 31,1999. This increase was mainly the result of loan payments being insufficient to cover interest costs. The only loan advance in this increase was for $258,486. Two loans showed a reduction in the amount outstanding.

A subsequent review of the provision for losses by Department staff in July, 1999 indicated that the provision should be increased to $14,462,945 at March 31,1999 from $13,391,541 an increase of $1,071,404.

Offshore - South

Number of loans	9
Principal and interest	$1,379,959
Provision for loss	$ 603,961
Amount due in arrears	*$ 753,398*

This section of the loan portfolio decreased by $18,462 from March 31,1998 to March 31,1999. Of the loans outstanding six decreased by $ 63,631 while five increased by $45,169 due to inadequate payments to cover interest charges.

A subsequent review of the provision for losses by Department staff in July, 1999 indicated that the provision should be increased to $637,539 at March 31,1999 from $603,961 an increase of $33,578.

Crab

Number of loans	27
Principal and interest	$19,689,529
Provision for loss	$10,090,973
Amount due in arrears	*$12,830,360*

This section of the loan portfolio increased by $85,305 from March 31,1998 to March 31,1999. Of the loans outstanding 15 decreased by $ 380,941 while 14 increased by $466,246 due to inadequate payments.

A subsequent review of the provision for losses by Department staff in July, 1999 indicated that the provision should be increased to $11,864,407 at March 31,1999 from $10,090,973 an increase of $1,773,434.

Shrimp

Number of loans	12
Principal and interest	$16,509,040
Provision for loss	$ 9,388,015
Amount due in arrears	*$ 8,334,664*

This section of the loan portfolio decreased by $350,606 from March 31,1998 to March 31,1999. Of the loans outstanding 5 decreased by $251,926, one decreased by $1,030,674 as a result of a payment of $58,768 and the remainder of $971,906 was being set aside and transferred to another loan category. New loan advances of $587,370 were added to the portfolio. Six loans increased by $344,624 due to inadequate payments.

A subsequent review of the provision for losses by Department staff in July, 1999 indicated that the provision should be increased to $10,388,015 at March 31,1999 from $9,388,015 an increase of $1,000,000.

Conclusions

Overall provision for losses

The Department separates loans into several categories, and as discussed previously, uses different methods to determine the loss provision for each category. Our analysis and review of the provision for losses will address each major category separately.

Inshore loans

There are nearly 500 loans in this section of the loan portfolio with an average loan balance of approximately $24,000. These smaller loans are easier for the fisher to service than the larger loans in the other categories. The arrears in these loans have been decreasing steadily from $6.2 million in 1993 to $2.5 million in 1999. The number of loans has decreased from 974 to 484 over the same period. A number of uncollectible loans have been written off in the past. Also, the Department has agreements with a number of fisher with loans in arrears to pay additional amounts. These additional payments are to ensure the loans are paid off by their maturity date. This section of the portfolio decreased by $209,510 from March 31,1998 to March 31,1999. Subsequent to year end, payments of $956,698 have been received on these loans.

The formula for determining the provision for losses on inshore loans appears reasonable based on the above information, and also due to the fact that the Department is taking 100% of all loans in arrears more than four years. This formula results in a provision for losses for inshore loans of 25.4%.

Recommendations

Aquaculture Loans

The provision should be increased by an additional $29,380 to $321,439 to match the revision recommended by the Department staff in July 1999.

Weir loans

No additional provision required.

Set aside loans

No additional provision required.

Repossessed loans

No additional provision required.

Loans to be written off

No additional provision required.

Offshore loans

This category of the loan portfolio is made up of large loans. In many cases the size of the loan makes it difficult for the fisher to cover even the interest on the loans. As a result, several loans have been "set aside" whereby no payments or interest is charged on the set aside portion of the loan. It is probable that more loans may be set aside in the future.

In determining boat values for purposes of setting the loss provisions on offshore loans, independent professional appraisals are normally obtained only when a vessel is to be foreclosed upon or transferred to another fisher. Sister vessels and / or similar vessel values are also adjusted when an independent appraisal is obtained. For vessels where no independent appraisal is available, field representatives who are familiar with the vessels estimate the value of the vessels.

It appears that once values are set they are arbitrarily revised downward as a method of increasing the provision for losses. While this effectively increases the loss provision, it impairs the credibility of these vessel values. In fact there are four loans where the estimated boat value is currently nil, but the boats are still in existence. As mentioned previously, a review of the actual realized value of vessels has historically, on average, been 56% of the amount used to set the loss provision. It is therefore appropriate to reduce the vessel values by up to 44% when determining the loss provision for offshore loans.

A more detailed review of vessel values by each separate group of loans in the offshore portfolio may result in a different percentage reduction of value in each group and a different overall loss provision. This is outside our current terms of reference.

There are several factors that lead us to believe that 100% of the groundfish portion of the portfolio should be included in the loss provision.

The moratorium placed on this fishery has resulted in the Department suspending the requirement for principal payments and implementing the interest relief program whereby no interest has been charged on these loans since 1994. The interest relief program is in place until December 31, 2000.

There are 17 boats in the groundfish fleet with an average age of 19 years, with the newest boat at least 11 years old. It is also safe to assume that the fleet is deteriorating due to lack of maintenance.

The provision for losses has been increasing steadily each year and it is evident it is only a matter of time before this category of the loan portfolio is fully provided for.

The provision for losses on the offshore portion of the loan portfolio should be increased to $64,660,117. This is an increase of $15,871,670 over the provision in the draft 1999 financial statements. The increase consists of the following components:

Increase due to July, 1999 review by Department staff	$ 4,281,670
44 % reduction in boat values from July,1999 amounts	10,240,000
Further increase in groundfish provision to 100%	1,350,000
Total	$15,871,670

Department of Fisheries and Aquaculture
Summary of Loans and Provisions for Losses
($ Thousands)

	Principal	Interest	Total	Mar 31/99	Updated Provision Jul/99	Grant Thornton Recommended Provision
Inshore	$ 10,569	$ 984	$ 11,553	$ 2,937	$ 2,937	$ 2,937
Aquaculture	385	106	491	292	321	321
Weir	38	21	59	59	59	59
Offshore	57,678	17,894	74,172	48,789	53,071	64,660
Repossed	13	19	32	29	29	29
Set Aside	1,692	965	4,057	4,057	4,057	4,057
Loans to be written off	2,134	333	2,467	2,467	2,467	2,467
	$72,509	$20,322	$92,831	$58,630	$62,941	$74,530
Provision as a percentage of loans				*63%*	*68%*	*80%*

Additional Recommendations

The loss provision should be increased by $15,900,000 and adjusted to $74,530,000 as indicated above.

Loans should be written off when all avenues of collection have been exhausted.

Loans should be written off in cases where a vessel has been scrapped or sold.

Interest should cease to be charged to loans when they are determined to be uncollectible.

Interest should be charged on the total balance outstanding, including arrears interest.

Payments should be applied to all outstanding interest before being applied to principal outstanding.

The boat values, used to set provisions, should be set at a portion of the appraised values and this discount should be monitored and adjusted periodically.

Any inshore loan that is known to be uncollectible should be fully provided for over and above the formula used to set the provision.

All loans should be reviewed periodically and the assessment of the loan status should be documented in the files. Consideration should also be given to obtaining future cash flow information to assist in valuing loans.

Property Taxes Receivable

Background

On March 1, 1999 annual Real Property Assessment and Tax Notices for 1999 were mailed to property owners. The assessments are based on site assessments conducted by Service New Brunswick and property tax rates developed in conjunction with New Brunswick municipalities. Property tax bills include provincial taxes, local service district taxes for rural areas, municipal taxes, and business area improvement levies.

The municipal portion of property taxes are payable to the municipalities regardless of whether the property tax payment is collected by the Province. Thus, the Province bears the risk of non-collection. As we understand, the risk is mitigated by the status of the municipal portion of the assessment, which forms a lien on the property in the event of bankruptcy (to the extent of two years of unpaid taxes), and would be collected prior to any title transfer to a purchaser.

These bills were due for payment by May 30, and subject to monthly interest thereafter. Bills paid prior to April 15, received a discount equal to the lesser of 3% or $20.

The Province also has the right of tax sale to collect overdue balances receivable. The effectiveness of this policy appears somewhat limited due to practical limitations with respect to the number of tax sales that can be effectively managed by staff on an annual basis.

Provisions for losses are calculated by staff based on specific provisions for individually significant balances or groups (Federal government; Not-for-Profits etc.), and formula based provisions are used for remaining items based on account agings.

Financial statement amounts:

	($ millions) Draft March 31, 1999	March 31, 1998
Property taxes receivable	$304.6	$294.8
Allowance for doubtful accounts	(45.3)	(33.2)
	$259.3	$261.6

Scope of Review Procedures

Hugh John Flemming Forestry Centre

The Forestry Centre is a not-for-profit entity established by an Act of the Legislature in 1980. The principals of the corporation are National Resources Canada, the Province of New Brunswick, the Maritime Forest Ranger School and the University of New Brunswick. The corporation is not an agent of the Crown in right of Canada, nor the Province of New Brunswick, and therefore enjoys no special privileges with respect to property tax treatment.

No taxes were initially assessed on the property when it was built in 1986. In 1994 the Geographic Information Centre of New Brunswick reviewed the Act that created the Centre and determined that it was taxable. The Province has since assessed tax, penalties and interest from 1986 to present. The balance recorded as receivable as of March 31, 1999 is approximately $8.8 million, including approximately $5 million of interest and penalties.

This issue has been subject to negotiation for a number of years without resolution. Based on correspondence within the Province's files, it does not appear that the Centre itself has the resources to pay this item, and would need to recover this amount from its principals. The principals in this instance are the Federal government, the Provincial government, the University of New Brunswick which receives the majority of its funding from the Provincial government, and the Forest Ranger School, which is funded by the Province along with other Maritime Provinces. Schedules within the file indicate the Federal Government represents the vast majority of these required funds.

However, the Federal Government is by law exempt from property tax and in this specific instance the Province does not qualify for the grant in lieu that applies to other Federal properties.

Other provisions

We reviewed the methodology and calculations for specific provisions against not-for-profit entities, as a class, and specific not-for-profits, and have concluded that the provision on these items is materially adequate.

We reviewed the methodology and calculations relating to the treatment of assessments to the Federal Government, for which the Province receives a voluntary grant in lieu of property taxes. We concluded that the provision for Federal Government receivables is also materially adequate.

We reviewed the methodology employed to create a general provision for losses on the remaining receivables. In summary we found the following:

- The overall approach of using percentage allowances based on the aging of the balances is the generally accepted approach in a number of other jurisdictions of which we are aware.

- The treatment of the secured portion of municipal taxes discussed previously appears to have been inappropriately applied, by reducing the provision for balances beyond 2 years in arrears rather than balances less than 3 years in arrears. This has resulted in an understatement of the provision of $1 million.

- No provision was made for property tax balances receivable relating to the 1999 or 1998 tax years. Our review of past history indicated that the overall expected eventual write-off would be in the range of 1% to 2% of provincial assessment. A conservative application of this methodology results in an increase to the reported provision of $3 million.

Conclusion

Our review in the property tax receivable area has resulted in our view that there is need for an increased provision of $12.8 million. This increase consists of the following items:

	($ millions)
Hugh John Flemming Forestry Centre	$ 8.8
Percentage provision for 1998 and 1999	3.0
Treatment of secured Municipal balances	1.0
	$12.8

	($ millions) Draft Financial Statements March 31, 1999	Grant Thornton Recommendation
Real property tax receivable	$304.6	$304.6
Allowance for doubtful accounts	(45.3)	(58.1)
	$259.3	$246.5

Recommendations

We recommend that the provision for losses be increased by $12.8 million and adjusted to $58.1 million.

We further recommend a more detailed assessment of past collection experience be carried out in order to improve this methodology for future reporting periods.

Department of Agriculture

Background

The Department of Agriculture administers the lending program authorized by the Agriculture Development Act. Loans are provided under the following three programs:

New Entrant Financing Program
New Land Purchase Program
Perennial Crop Establishment Loan Program

The loans are secured by 1st mortgages on property and assignments of any applicable quotas. Also personal guarantees are obtained from the principals involved.

Financial Statements Accounts:

Loans and Advances	$14.6 million
Interest Receivable	0.9 million
	$15.5 million

Scope of Review Procedures

We made a visit to the Department of Agriculture to discuss the provision for losses. The staff were very knowledgeable about the loans outstanding and were confident the provisions were adequate. Loans in arrears are minimal.

None of the Perennial Crop Establishment loans have any payments presently due. Interest is capitalized for the first five years; then the entire principal and interest is to be paid off. These loans related to blueberry and cranberry development.

Conclusion

The loss provision of $5.7 million appears adequate.

Concessionary Component of Low Interest Loans

Terms of Reference

"To value the concessionary component of all low interest loans reported as financial assets. This should be done by applying the recommendations in section 3050, Loans Receivable, of the CICA Public Sector Handbook".

Background

The Province of New Brunswick has outstanding loans receivable from various individuals and corporations of approximately $275 million as at March 31, 1999. A number of these loans were issued at interest rates below market. Currently, provincial loans are all recorded on the statement of financial position in the same manner - at face value.

Extract from the Notes to the Province of New Brunswick Draft Financial Statements for the Year Ended March 31, 1999

"Loans that earn a low rate of return are recorded as assets at the original loan amount less any principal payments made to 31 March 1999".

If a government lends money at rates less than what it pays to borrow money, it does so at a net cost. If concessionary loans are shown at face value in the financial statements, the net cost of the concessionary component is buried in the cost of debt servicing. Even though the government of the day made the commitment to give that concessionary rate, future governments and taxpayers will bear the net cost of those loans issued at concessionary terms. As well, if these loans are recorded at face value, a $100,000 loan at 0% interest appears the same as a $100,000 loan with market terms. In fact, a concessionary loan is different. Similar to a bond issued at a discount or premium, the financial markets put a different "price" on a loan which is issued at terms different than market - in this case, at an amount which is less than face value.

To address these issues and improve the accountability for government lending, the Public Sector Accounting Board (PSAB) issued a Statement of Recommendations in April 1993, which applies to all levels of government. The applicable recommendations in Section 3050 of the CICA Public Sector Accounting Handbook follow:

"When the terms of a loan are so concessionary that the substance of the transaction is that all or a significant part of the loan is more in the nature of a grant, the grant portion of the transaction should be recognized as an expenditure when the loan is made".

"The recorded value of the loan at the date of issue should be its face value discounted by the amount of the grant portion. The amount of the loan discount should be amortized to revenue in a rational and systematic manner over the term of the loan".

For loans with concessionary terms, the recommendations accomplish two things. They require the impact of issuing such loans be reflected up front, in the year the loans are issued, so that the effects are not hidden. They also ensure that the amount recorded on the statement of financial position reflects the fact that special terms or repayment assistance have been granted by the government to the borrower.

Recognizing the impact up front raises another issue, how to recognize repayments on the loan. The PSAB Handbook recommendations require the discount be amortized to revenue over the term of the loan, so that the loan is written up each year by the amount of the amortization and repayments are applied against that loan balance. The preferred method of amortization is the effective interest rate method, a method used to amortize bond discounts and premiums, but other appropriate methods are also allowed. This essentially results in the full use of present value techniques in accounting for concessionary loans.

Scope of Review Procedures

We initially met with the Steering Committee as well as Mr. Ed Mehan, Mr. Michael Ferguson, and Ms. Janet Gallagher of the Office of the Comptroller to obtain their input and direction. We discussed the magnitude of low interest loans in each department with them and obtained the names of contact people within each of the departments with significant loan portfolios.

We obtained the necessary loan information from the respective contact people in each department. Generally we obtained the following information:

- a summary of the total loans outstanding in each department
- an identification of the low interest loans within each summary
- a summary of the amounts that have been allowed for as doubtful accounts
- repayment terms sufficient to estimate the future cash flow
- the original date of issue or the renewal date of the respective loans

Using the preceding information we estimated the future expected cash flow for each significant loan or group of loans. We then compared the present value of the future cash flow to the face amount of loans receivable recorded in the March 31, 1999 draft financial statements to determine the concessionary component of low interest loans. In the calculation of the present value we used the Province's suggested borrowing rate at the time of loan issuance or at the renewal date if the original loan was altered subsequent to issuance.

We did not calculate the concessionary value of low interest loans that have already been expensed by the Province through an allowance for doubtful accounts or those loans that we have recommended the Province add to the allowance for doubtful accounts in another section of this report.

Analysis and Conclusion

Our observations by department follow:

Economic Development, Tourism and Culture

We discussed the extent of low interest loans in this department with a number of representatives from both this department and the Office of the Comptroller. Mr. John Watt provided an initial overview of the department's activities with respect to these types of loans and Ms. Joanne Walker and Ms. Dawn Sullivan provided us with detailed loan data. The outstanding balances of individual loans range from $17,000 to $14,000,000 and carry a diverse array of interest and repayment features. We identified the loans with a concessionary component through a process of discussion and review of selected files. Based on the information provided to us by the department and the Office of the Comptroller, we estimate the value of the concessionary component of the low interest loans in this department to be approximately $10.5 million.

Fisheries and Aquaculture

We discussed the extent of low interest loans in this department with Mr. Maurice Bernier, Executive Director of Finance and Administration. A significant portion of the outstanding loans in this department were not included in our calculations as they are provided for in the allowance for doubtful accounts or we have recommended they be added to the allowance. A number of zero interest loans in the groundfish sector are an example of the loans we think should be added to the allowance. They have been addressed in another section of our report.

Of the remaining loans, we reviewed a number that carried a zero interest rate for the first five years of a twenty-five year term. Based on the information provided to us by the department, we estimate the value of the concessionary component of the low interest loans in this department to be approximately $740,000.

Municipalities and Housing

We met with Mr. Charles Boulay, Director of Housing and Ms. Joan Baldwin, Housing Finance Manager to discuss the extent of low interest loans in this department. They identified five programs that together contained approximately 97% of the outstanding loan portfolio. Upon discussion, we eliminated one of the five programs for review, the Federal / Provincial Repair Program, as the loans within this program bear market rates. The other four programs: the Home Completion Loan Program, the Homeowner Assistance Program, the Down-Payment Assistance Program and the New Construction Program were reviewed with Ms. Baldwin to determine the average payout period, the average interest rate and the average renewal period of the loans in each program. Based on the information provided to us by the department, we estimate the value of the concessionary component of the low interest loans in this department to be approximately $3.9 million.

Agriculture and Rural Development

We discussed the extent of low interest loans in this department with Mr. Paul Cooper, Secretary/Manager of the Agricultural Development Board. Based on this discussion, the department does not have any loans outstanding with concessionary rates of interest that are not fully provided for in the allowance for doubtful accounts. The department has not been involved in any significant low interest loan programs in recent years. Based on the information provided to us, there appears to be no concessionary component of low interest loans in this department.

Regional Development Corporation

The Regional Development Corporation has one loan outstanding for $5 million. This loan is receivable from the Fundy Trail Trust and is non-interest bearing. Based on the information provided to us by the Office of the Comptroller, we estimate the value of the concessionary component of this low interest loan to be approximately $2.2 million.

Executive Council

The Executive Council has one loan outstanding for $4 million. This loan is receivable from La Fondation du Quotidien Francophone. The loan is non-interest bearing and there are no provisions for repayment unless the French language daily newspaper it benefits ceases publication and is not replaced by another acceptable French language newspaper. Based on the information provided to us by the Office of the Comptroller, we recommend the continued recognition of this amount as a financial asset be reviewed and consideration be given to recognizing the entire amount as an expenditure.

Solicitor General

The Solicitor General has one loan outstanding for $3.7 million. This loan is receivable from the City of Moncton, is non-interest bearing and is due in seven equal annual installments from 1999 to 2005. Based on the information provided to us by the Office of the Comptroller, we estimate the value of the concessionary component of this low interest loan to be approximately $650,000.

Other

We did not review the remaining miscellaneous loans receivable in the March 31, 1999 draft financial statements as only $3.6 million of the $13.9 million total is not included in the allowance for doubtful accounts.

Conclusion

We have summarized our analysis in the following table which shows the concessionary component of low interest loans by department.

($ Millions)

DEPARTMENT	AMOUNT OUTSTANDING MARCH 31, 1999	ALLOWANCE FOR DOUBTFUL ACCOUNTS AS INCLUDED IN THE DRAFT MARCH 31, 1999 FINANCIAL STATEMENTS	NET AMOUNT OUTSTANDING MARCH 31, 1999	CONCESSIONARY COMPONENT OF LOW INTEREST LOANS MARCH 31, 1999
Economic Development, Tourism and Culture	$136.2	$33.0	$103.2	$10.50
Fisheries and Aquaculture	72.5	45.8	26.7	0.74
Municipalities and Housing	25.0	3.1	21.9	3.90
Agriculture and Rural Development	14.6	5.7	8.9	N/A
Regional Development Corporation	5.0		5.0	2.20
Executive Council	4.0		4.0	N/A
Solicitor General	3.7		3.7	.65
Other	13.9	10.3	3.6	N/A
Totals	$274.9	$97.9	$177.0	$17.99

Based on the information provided to us by the various departments and the Office of the Comptroller and the recommendations in section 3050, Loans Receivable, of the CICA Public Sector Accounting Handbook, we estimate the value of the concessionary component of low interest loans on the draft financial statements of the Province of New Brunswick to be approximately $18 million as of March 31, 1999.

Classification of Leases

Terms of Reference

"To evaluate the accounting classification of leases included in Public Private Partnership arrangements".

Background

The Province of New Brunswick has, in recent years, been attempting to involve the private sector in the delivery of public services. In some instances, this involvement is such that the government contracts with a single private sector provider for the design, construction, operation and financing of a particular project and then enters into a lease arrangement with the provider. These arrangements have become known as Public Private Partnerships and the accounting for such arrangements is often an important feature of the arrangement. Lease terms are often specifically crafted to ensure the lease qualifies as an operating lease and not a capital lease so there is no requirement for the lessee to record an asset and an associated debt.

The Canadian Institute of Chartered Accountants' Handbook (CICA Handbook), which codifies generally accepted accounting principles in Canada, contains provisions for classification of leases. Section 3065.03 defines a capital lease as *"a lease that, from the point of view of the lessee, transfers substantially all of the benefits and risks incident to ownership of property to the lessee"*. The same section defines an operating lease as *"a lease in which the lessor does not transfer substantially all the benefits and risks incident to ownership of property"*.

Section 3065.05 of the CICA Handbook also states "*.... a lease that transfers substantially all of the benefits and risks of ownership to the lessee is in substance an acquisition of an asset and an incurrence of an obligation by the lessee…*".

Section 3065.06 sets out three conditions, the presence of one or more of which, at the inception of the lease, would reasonably constitute the transfer of substantially all of the benefits and risks of ownership to the lessee.

The three conditions are:

- There is reasonable assurance that the lessee will obtain ownership of the leased property at the end of the lease term
- The lease term is of such a duration that the lessee will receive substantially all (normally 75%) of the economic benefits expected to be derived from the use of the leased property over its life span
- The lessor will be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement

The Province of New Brunswick has classified all of its leases arising from Public Private Partnership arrangements as operating leases. Accordingly, no assets and no capital lease obligations are recorded in the accounts of the Province and the lease payments are recorded as expenditures in the year they become payable.

Scope of Review Procedures

We obtained from senior personnel in the Department of Finance a list of the leases included in Public Private Partnership arrangements. These leases are as follows:

- Fredericton - Moncton Highway
- Moncton North School
- Miramichi Youth Centre
- Centracare
- Fredericton North School

A number of other arrangements were also discussed but not reviewed because the Province's commitment to make payments is contingent on savings being achieved and accordingly, payments are expensed when the liability is confirmed.

We had discussions with representatives from the Department of Finance and the Department of Supply and Services. We obtained a copy of each of the five leases above. We also obtained a copy of a letter from KPMG related to the Fredericton-Moncton Highway transaction, which provides an opinion on the accounting implications of the Province having entered into an arrangement with a not-for-profit corporation that will provide highway services.

We reviewed the above documentation and applied the provisions of Section 3065 of the CICA Handbook as outlined below to determine whether each lease should be classified as an operating lease or a capital lease.

> To determine whether there is reasonable assurance the Province will obtain ownership of the leased property, we examined the purchase/renewal provisions of each lease to determine if they would result in a direct transfer of title to the Province, constitute a bargain purchase option or, in some other manner, provide reasonable assurance the Province would obtain ownership of the leased property.
>
> To determine the expected economic life of each of the assets, we conducted discussions with personnel in the Department of Supply and Services and reviewed the historical experience with similar assets.
>
> To assess the satisfaction or otherwise, of the third condition (recovery of investment and earning a return), we obtained the appropriate incremental borrowing rates of the Province from the Treasury & Debt Management Division of the Department of Finance. Using these rates, we calculated the present value of the minimum lease payments and compared the present value with the fair market value of the property at the inception of the lease to determine whether or not the 90% condition (see condition 3 in the subsequent analysis) is satisfied.

Analysis

In applying the first condition to the leases, we concluded none of the leases contained a bargain purchase option. The Moncton North School lease and the Miramichi Youth Centre lease each contained purchase and renewal clauses that could possibly be interpreted as providing reasonable assurance the lessee (the Province) will obtain ownership of the leased property. However, since these leases meet the third condition and are therefore evaluated by us as capital leases in any event, no further analysis was warranted.

The estimated economic life of all the properties in question was determined in consultation with the representatives of the Department of Supply and Services to be over forty years. Since the leased term for the Highway is thirty years and the term for each of the others is twenty-five years, none of the leases satisfies the second condition for classification as a capital lease.

We computed or reviewed the calculation of the present value of the minimum lease payments for each of the leases, using the appropriate Provincial incremental borrowing rate, and compared the result to the fair value of the leased property at the inception of the lease. We determined that the present value of the minimum lease payments of the Highway, Centracare and Fredericton North School leases were each close to, but less than 90% of the fair market value of each of the respective properties at the inception of the lease. Therefore these leases are properly classified by the Province as operating leases. Similar calculations for the Moncton North School and Miramichi Youth Centre leases exceeded 90% and as a result these leases should be classified as capital leases. The fair market values of the Moncton North School and the Miramichi Youth Centre total approximately $30 million which is the approximate amount of the asset and related debt not recorded by the Province.

Our analysis is summarized in the table below:

Lease	Conditions Met?			Type of Lease
	Ownership (1)	Economic Life (2)	Recovery/ Return (3)	Capital or Operating
Fredericton-Moncton Highway	No	No	No	Operating
Moncton North (Evergreen Park) School	No	No	Yes	Capital
Miramichi Youth Centre	No	No	Yes	Capital
Centracare	No	No	No	Operating
Fredericton North School	No	No	No	Operating

Conditions (section 3065.06)

From the point of view of a lessee, a lease would normally transfer substantially all of the benefits and risks of ownership to the lessee when, at the inception of the lease, one or more of the following conditions are present:

(1) There is reasonable assurance that the lessee will obtain ownership of the leased property by the end of the lease term. Reasonable assurance that the lessee will obtain ownership of the leased property would be present when the terms of the lease would result in ownership being transferred to the lessee by the end of the lease term or when the lease provides for a bargain purchase option.

(2) The lease term is of such a duration that the lessee will receive substantially all of the economic benefits expected to be derived from the use of the leased property over its life span. Although the lease term may not be equal to the economic life of the leased property in terms of years, the lessee would normally be expected to receive substantially all of the economic benefits to be derived from the leased property when the lease term is equal to a major portion (usually 75% or more) of the

economic life of the leased property. This is due to the fact that new equipment, reflecting later technology and in prime condition, may be assumed to be more efficient than old equipment which has been subject to obsolescence and wear.

(3) The lessor would be assured of recovering the investment in the leased property and of earning a return on the investment as a result of the lease agreement. This condition would exist if the present value, at the beginning of the lease term, of the minimum lease payments, excluding any portion thereof relating to executory costs, is equal to substantially all (usually 90% or more) of the fair value of the leased property, at the inception of the lease.

Conclusion

Based on the foregoing analysis, we would consider the Fredericton-Moncton Highway, Centracare and Fredericton North School leases to be correctly classified by the Province as operating leases. It is also our opinion that the Moncton North (Evergreen Park) School lease and the Miramichi Youth Centre lease should be accounted for as capital leases, not as operating leases which is the present classification in the accounts of the Province.

Completeness of Reporting Entity

Terms of Reference

"To determine the completeness of the Province's financial reporting entity, including a comparison with other jurisdictions".

In answering this term of reference we have, as directed by the Steering Committee, defined completeness as meaning which organizations are in or potentially should be included in the reporting entity; we have not addressed the accounting procedures chosen to include organizations in the entity.

Background

The Canadian Institute of Chartered Accountants has authorized the Public Sector Accounting Board to issue recommendations and guidance with respect to matters of accounting for the public sector.

The Public Sector Accounting Handbook (PSAB Handbook) defines the government reporting entity as "*the government reporting entity should comprise the organizations that are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature or local government council and are owned or controlled by the government*".

Three factors must be considered in the determination of the completeness of the Province as a reporting entity.

- The objectives of financial statements of government
- The types of organizations to be included in the reporting entity should be defined
- Given the basis for inclusion is accountability, control or ownership, these terms must be defined as concisely as possible

The CICA Public Sector Accounting Handbook provides guidance with respect to these three issues.

Objectives of Financial Statements

Objectives of Financial Statements Section 1400 and referenced at Section 1300.03 of the Public Sector Accounting Handbook states that *"government financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible including those related to the activities of government agencies and enterprises"*. The PSAB Handbook goes on to state that *"those financial statements are a principle means by which a government demonstrates its accountability for the financial affairs and resources entrusted to it and should provide information useful in evaluating a government's performance in the management of financial affairs and resources"*.

It is accepted, as pointed out in the CICA Public Sector Accounting Handbook, that governments carry out their policies and deliver services through various forms of organizations..

Types of Organizations

In general terms the CICA Public Sector Accounting Handbook recommends all government organizations be included in the reporting entity. Government organizations are defined as *"organizations which are accountable for the administration of their financial affairs and resources either to a minister of the government or directly to the legislature"*.

The PSAB Handbook separates from other government organizations, the following:

- government business enterprises
- government business type enterprises
- government not-for-profit organizations

A government business enterprise is an organization with the following characteristics;

- it is a separate legal entity with the power to contract in its own name and that can sue and be sued
- it has been delegated the financial and operational authority to carry on a business
- it sells goods and services to individuals and organizations outside of the government reporting entity as its principal activity
- it can, in the normal course of operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity

Government business type organizations also are separate legal entities with the power to contract in their own name, and can sue and be sued. As well, they have been delegated the financial and operational authority to carry on business and also sell goods and services to individuals and organizations as their principal activity. However, government business type organizations are those which may sell goods and services within the government reporting entity or they may rely on subsidies from the government or other organizations in the government reporting entity to maintain their operations or meet their liabilities.

Government not-for-profit organizations are those organizations which have counterparts outside the public sector and meet the definition of a not-for-profit organization in the CICA Handbook.

Accountability, Ownership or Control

The PSAB Handbook points out that many organizations are subject to direct ministerial or council authority and are obviously included in the financial reporting entity.

Other organizations such as boards, commissions and Crown corporations have much broader financial powers and operational authority delegated to them and their inclusion as part of the reporting entity is less clear.

Accountability

Government organizations become accountable through their incorporating or enabling legislation. Accountability is either directly to the legislature or indirectly through a minister or senior official. Accountability is with respect to management's overall actions, operations and administration. Accountability can also be obvious from legislative provisions that require government organizations to be accountable.

It should also be kept in mind and as the PSAB Handbook points out, in order to be included in the reporting entity, organizations must be accountable for the overall administration of their financial affairs and resources. To be simply financially dependant on, or regulated by government or to have responsibility limited to the way the government funding is used, is not sufficient to define accountability.

Ownership is more easily defined. The CICA Public Sector Accounting Handbook defines ownership to exist where:

- *"the government owns title to a majority of the organization's shares carrying the right to appoint at least a majority of the members of the board of directors or*
- *government has an ongoing right to access the organization's net assets."*

Control is also defined within the PSAB Handbook.

"Governments control other organizations when, without requiring the consent of others or changing existing legislative provisions, it has the authority to determine the financial and operating policies of that organization."

Control may also be evidenced in legislative provisions including regulations and by-laws where government is provided authority to:

- "determine the revenue raising, expenditure and resource allocation policies of the organization or
- appoint a majority of the organization's governing board or its senior management"

Government *"may choose not to exercise its authority or actively participate in the implementation of the policies; nevertheless, control exists by virtue of the government's ability to do so".*

In our review there are two areas which must be considered in reviewing the Province of New Brunswick as a reporting entity in comparison to other jurisdictions.

The first is adherence to the Public Sector Accounting Handbook. This is a decision each individual jurisdiction must make, with respect to various organizations identified for possible inclusion.

Therefore in analyzing differences in comparability of jurisdictions, decisions to adhere to the Public Sector Accounting Handbook must be considered.

The other area which must be addressed in assessing comparability is the interpretation of terms used in the PSAB Handbook.

Scope of Review Procedures

In completing the terms of reference, the following were completed:

- Met with Steering Committee to discuss and obtain clarification of the terms of reference
- Met with the Comptroller and Director of Accounting Services
- Met and obtained input from Deputy Minister of Finance, Province of New Brunswick
- Reviewed various sections in CICA Public Sector Accounting Handbook

- Reviewed draft financial statements of the Province of New Brunswick for the year ended March 31, 1999
- Reviewed Province of New Brunswick financial statements for year ended March 31, 1998 audited by the Auditor General
- Reviewed other provincial and territorial jurisdictions' financial statements for the most recent year ends available
- Compiled a specific list of additional government organizations to be considered for possible inclusion in Province of New Brunswick reporting entity
- Reviewed the results of a study commissioned by the Office of the Comptroller General of British Columbia comparing the Provincial Education and Health Legislations for all jurisdictions to the PSAB reporting criteria

Analysis and Conclusions

We did not consider the multitude of organizations such as charities, foundations and other not-for-profit organizations which receive funding from the Province as part of their ongoing activities. As noted earlier, to be accountable, organizations must be accountable for the overall administration of their financial affairs and resources. It is our view the majority of these organizations simply receive some form of funding. Also, it would be likely that any organizations which have a relationship with the Province which exceeds financial dependence, regulation, or responsibility for the way funding is used would be immaterial to the Province's financial statements either alone or as a group. Also, we saw no evidence that any other Provincial or Territorial jurisdiction was including organizations of this type in their reporting entity.

Our report will specifically note, those organizations we considered for inclusion.

Ownership in our opinion is not difficult to establish, generally.

In fulfilling the terms of reference for this project, the one issue which required the greatest amount of attention was the review of the interpretation of accountability and control.

As noted in the background information, these definitions are vital to the determination of which organizations will be included in the reporting entity.

When comparing New Brunswick to other provincial and territorial jurisdictions we considered the fact that differences of inclusion in the reporting entity may not only be due to interpretation variances. The decision on whether to include certain organizations will always depend on the wording of its legislation. This legislation will vary between jurisdictions with some having a clear situation of accountability and control, or lack thereof, while others will leave more room for interpretation.

We understand some degree of uncertainty exists as to the application of the rules as an example where control exists.

We have reviewed correspondence from Provincial and Territorial jurisdictions wherein concern is expressed about certain types of entities not being included in the financial statements; such as health corporations, post-secondary education institutions and schools. Many jurisdictions are potentially making decisions based upon their interpretation of the spirit and intent of the PSAB recommendations.

Concern is also raised in many instances where including certain organizations in the reporting entity may change the relationship between the entity and government. This concern has been raised by some Provincial and Territorial jurisdictions in that, by including certain entities in the reporting unit, with the entities' results affecting overall government results, more input would be required into budgets, ongoing operations and all aspects of the entity.

The Public Sector Accounting Handbook states that government financial statements should provide an accounting of the full nature and extent of the financial affairs and resources for which the government is responsible, including those related to the activities of government agencies and enterprises. Including these board-governed organizations as part of the consolidated financial statements does not reduce their autonomy. The fact that one controls an organization does not mean that one must interfere in the day-to-day management of that organization.

In our view, choosing to interpret recommendations found in the PSAB Handbook in light of whether more influence or control must be exercised, due to the entity being included in the government reporting entity, is not the correct approach. Governments should make decisions as to whether or not they wish control or ownership relationships with organizations, knowing the reporting and funding responsibilities which result, and structure organizations in the appropriate manner. Therefore in comparing the New Brunswick reporting entity to other Provincial and Territorial jurisdictions all of the above must be considered.

In assessing entities for inclusion, we considered certain organizations because the Province might be ultimately responsible for their debt. We have not pursued this possible criteria as we believe the appropriate criteria for inclusion for these organizations is accountability, control and ownership.

After our review of the audited financial statements of certain Provincial and Territorial jurisdictions we believe New Brunswick has one of the most complete financial reporting packages.

Our review has identified only one limited circumstance where a Provincial or Territorial jurisdiction included an organization which New Brunswick has not or does not intend to include for the year ended March 31, 1999. This was the limited inclusion of certain universities by one jurisdiction.

The two areas which appear to be currently hot topics across the country are the education and health sectors. These sectors were the focus of a study commissioned by the Province of British Columbia in comparing the provincial legislation to the Public Sector Accounting Board (PSAB) reporting criteria.

Schools

For the education sector, the study looked at three aspects being public schools, colleges and universities. In relation to public schools and colleges, New Brunswick was one of the few which included the organizations as part of the financial reporting entity. These are being included through the consolidation method. With respect to both schools and colleges, ten of the applicable legislations were interpreted as meeting the PSAB criteria for inclusion in the financial reporting entity. In both instances there were two jurisdictions where the applicability was uncertain.

Universities

According to the study, five jurisdictions, including New Brunswick, met the PSAB criteria for inclusion as part of the financial reporting entity. Yet universities are currently only included by one jurisdiction. It is obvious that including universities has not yet gained wide acceptance nationally, however we suggest the Province stay abreast of any further developments in this area.

Hospitals

The health sector appears to be the one with the largest variance between actual practice and the PSAB recommendations. The study reported that eleven of the twelve jurisdictions met the PSAB criteria for including hospitals as part of the financial reporting entity, however only two were fully compliant for the fiscal year 1997-98. For the year ended March 31, 1998, New Brunswick did not include hospitals as part of the financial reporting entity however it is our understanding that such inclusion is appropriate. We have concluded that the Province of New Brunswick should include the hospitals in its reporting entity using the consolidation method.

The topic of accounting for hospital corporations in New Brunswick is dealt with, in a separate project elsewhere in our report.

Other organizations considered for inclusion.

Nursing Homes

Another organization which falls under the health sector is nursing homes. On review of many other Provincial and Territorial jurisdictions in Canada, none appear to be including nursing homes as part of the financial reporting entity, other than reflecting them using the transaction method. This is the approach being followed by New Brunswick. After review of certain applicable documentation, we do not believe nursing homes are accountable to the Minister of Health for their overall financial affairs and resources, nor are they owned or controlled by the Minister. We therefore consider the current approach appropriate.

Municipalities

As part of our review, we did an overall assessment of what other organizations could be potentially included in the financial reporting entity due to their relationship with the Province. One of the organizations considered was municipalities. The two aspects of municipalities which tie them into the provincial government are revenue and financing. With regards to revenue, property tax revenues are theirs to have as a result of Provincial legislation which provides them with taxing authority. In the case of financing, all long term financing for capital projects including capital leases needs to be approved by the Municipal Capital Finance Board and once approved is funded by the New Brunswick Municipal Finance Corporation. Although these two areas are controlled by the Province, they are only part of total municipal operations.

From an accountability point of view, the municipal councilors are elected by the residents of the municipality and are therefore primarily accountable to them. Although the municipality needs to provide the government with specified reporting, including annual budgets, the government has no control over how the municipality spends its funds, nor does it assist with deficits or have any rights to surpluses.

The Public Sector Accounting Handbook appears to contemplate three levels of government. The PSAB Handbook states "*for purposes of applying PSAB recommendations, public sector refers to federal, provincial, territorial and local governments.*"

The PSAB Handbook further notes that government organizations, "*are organizations that are accountable for the administration of their financial affairs and resources either to a minister of government or directly to the legislative or local government council*".

The PSAB Handbook also separates or implies separation for various levels of government. The PSAB Handbook Section 1400 deals with objectives of financial statements, federal, provincial and territorial governments. Section 1700 deals with objectives of financial statements local governments.

Accountability, which has been defined earlier in terms of including organizations in a reporting entity, is implied in section 1700.15, "*local government financial statements serve the interests of the public and council and others such as regulators, investors and analysts*". Section 1700.18 states "*regulators eg. provincial governments and their commissions and boards, have legislative or regulatory authority over local government activities. Regulators seek assurance that those activities are carried out in a financially responsible manner and in accordance with the authority and power delegated by provincial authorities*". As noted earlier, being regulated by government is not sufficient to define accountability and have inclusion in the reporting entity.

We are of the opinion that municipalities should not be included as part of the New Brunswick Provincial financial reporting entity due to a lack of accountability and control or ownership on the part of the government. This is consistent with the approach being followed by the other Provincial and Territorial jurisdictions in Canada, which we reviewed.

Public-Private Partnerships

The public-private partnerships (3P) are another area reviewed to ascertain if there were any situations in which the government had voting control of the board. Based on our review we determined that the Fredericton-Moncton Highway Project is the only 3P where such a situation potentially exists. The Province of New Brunswick has had a study done on whether the entity known as, "the Project Company", should be consolidated as part of the Province's financial reporting entity, and it was determined that it should not. For purposes of this review we accept that this assessment is correct, since it appears based upon the study that, the government does not control the board nor does the company report to a Minister.

Debt

In order for the financial statements to meet the objectives stated in Section 1400 of the PSAB Handbook, the total debt for which the Province is responsible needs to be disclosed. Any such debt on the books of government organizations would get included on the statement of financial position through the consolidation process.

With regards to government business enterprises, their debt does not appear on the statement of financial position due to the mechanics of the modified equity method of accounting. Condensed financial information regarding these government enterprises is presented in the notes to the Province of New Brunswick's financial statements however disclosure of the Province's debt guarantees is not noted. We suggest the Province should present separately, within the condensed financial information, the liabilities which are government guaranteed.

Conclusion

It is our view, the financial statements of the Province of New Brunswick will represent a complete and appropriate reporting entity for year ended March 31, 1999 based upon our review of the draft financial statements for the year ended March 31, 1999.

Observations

The definition of a provincial reporting entity is an evolving process.

The accounting for entities to be included is also evolving.

As noted in our discussions, a great deal of uncertainty continues to exist with respect to definitions used in assessing inclusion in a reporting entity, and there appears to be a significant amount of continued uncertainty.

In the future, in assessing completeness, precedent and agreement as to definitions, will resolve many inclusion issues.

We would encourage the Province of New Brunswick to be attentive to changes and recommendations by the Public Sector Accounting Standards Board.

Information Technology

Terms of Reference

"To evaluate the current state of the information technology capability of the central government".

Background

The Province of New Brunswick, like most large public and private enterprises, relies heavily on computer applications to support its business operations. The Province wants to use information technology in its drive to increase the efficiency with which it delivers services to the public. The objective of this project is for us to provide the Province with an overview of the current state of its information technology capability. This overview is meant to be a precursor to subsequent focussed reviews of particular issues.

We discussed the initial terms of reference with Mr. William Thompson, Deputy Minister, Office of the Premier. In our discussions, Mr. Thompson outlined the specific items the Government was looking for:

- ***Review and assess the information technology infrastructure of the central government (including supporting hardware, software and network components)***
- ***Review and comment on the central government's overall management of information technology***
- ***Review and comment on the central government's management of major information technology projects***
- ***Comment on other issues that affect the information technology capability of the central government that arise in the performance of the above reviews***

Scope of Review Procedures

Our project is an inquiry-based review and relies upon information obtained through various interviews. The review encompasses all central government departments classified as Part 1 of the Civil Service Act with the exception of the Department of Education. The review does not deal with issues arising from the year 2000 problem, as this would be beyond the scope of this limited engagement.

We initially met with Mr. G. Stephenson Wheatley, Deputy Minister, Supply and Services and Ms. Lori MacMullin, Corporate Information Management Services (CIMS) to obtain background information and to schedule interviews. We subsequently interviewed the following individuals to obtain information on the central government's information technology capability:

- Mr. G. Stephenson Wheatley, Deputy Minister, Department of Supply and Services
- Mr. David Ferguson, Deputy Minister, Department of the Solicitor General (and Chairperson of the Information Technology Strategy Steering Committee (ITSSC))
- Mr. Peter Andrews, Director of Information Systems and Services, Department of Natural Resources and Energy (and Past Chairperson of the Information Systems Advisory Committee)
- Ms. Lori MacMullin, Chief Information Officer, CIMS
- Mr. Kenneth Fitzpatrick, Director of Information Technology Services, Department of Labour (and Chairperson of the Information Systems Advisory Committee (ISAC))
- Mr. Charlie Chaisson, Director of Technical Architecture and Shared Services, CIMS
- Mr. Danny Keizer, Director of Strategic Initiatives and Security, CIMS
- Ms. Lynne Fudge, Director of Information Architecture and Planning, CIMS
- Mr. Bob Gamble, President, Service New Brunswick
- Mr. Peter Dielissen, Director of Information Technology, Service New Brunswick
- Ms. Mary Ogilvie, Vice President Development, Service New Brunswick

Observations and Comments

Review and assess the information technology infrastructure of the central government (including supporting hardware, software and network components)

The central government has approximately 10,000 personal computers. These computers are being replaced at a rate of 2,500 per year. In common with most organizations, the year 2000 issue has generally forced out older technology.

Departments buy new units using a standard buyer's guide. This provides consistency and a minimum standard across government. It provides direction on desktops, printers, standard desktop software, network cards, etc.

The central government has over 200 servers that provide file and print, application processing and database access services. These servers generally run on Novell Netware, Windows NT or a Unix operating system. Each department controls server acquisition and there does not appear to be firm government standards. Some departments use CIMS to help them with the acquisition but most make their own decisions.

The central government uses mainframe services supplied by an external party. Although ten different departments utilize this mainframe, three departments, Health & Community Services, Finance and Transportation account for 80% of the use. We understand this mainframe is about two years old.

The central government's high speed ATM (asynchronous transfer mode) network provides wide area network (WAN) functionality for central government departments. A WAN typically serves as a customized communications backbone that interconnects all of an organization's local networks. Remote offices, where the ATM network is not cost effective, use a slower private frame relay network.

We have not reviewed the core application software used by each department in the delivery of services as that review is outside of the scope of this review. We understand that there is approximately $80 million in application software in the development stage. This development stage ranges anywhere from being contemplated to in process. Business processes drive new application development and new applications drive the technical infrastructure. Additional servers may be necessary as business changes, for reasons related to capacity, distribution, performance, etc.

The current status of personal computers, servers, network communications, desktop and other network software within the central government varies by department. The general opinion, however, based on the interviews we conducted is that the central government is reasonably well equipped at this point in time. We concur with this assessment, as not unlike most organizations, there has been a heavy investment in technology over the past few years in order to become Y2K compliant. New application development and normal replacement of older units should drive most of the central government's requirements in this area over the next few years.

We believe the central government should review the cost / benefit of implementing stronger standards, an "evergreening" program, and a centralized (or virtual) help desk. We expand upon each of these opportunities later in this report.

Review and comment on the central government's overall management of information technology

We believe the area of IT management presents the single largest opportunity for the new government to increase the benefit it gets from its IT expenditures. The overall management of IT was a common theme in every interview we held. In general, there has been limited success over the last few years in the development of corporate applications or in the sharing of business processes, data and applications across departments. We believe the Province must look for common solutions to minimize the expense of redundant IT development. As the dependency upon and the investment in IT increases, the financial consequences of not addressing this issue will grow dramatically.

This is not a new issue. It was mentioned in a 1993 IT Strategy Review and again in 1996. The following extract was taken from a 1996 NBG Information Architecture Report Synopsis that was prepared by Corporate Information Management Services:

> *"CIMS believes that in order to achieve a truly integrated approach to IM/IT, Government as a whole, must develop and implement an enterprise wide strategy. This is particularly important if opportunities within sectors are to be fully exploited".*

CIMS was established "to protect the corporate interest and promote the common good". It does this through a process of facilitation and encouragement as it has no direct control over departmental IT expenditures or staff.

Although there has been some improvement over the years as CIMS has matured and the terms of reference of the (ITSSC) and (ISAC) have been refined, we have been told the same basic issue of decentralized control still exists. The following examples illustrate some of the specific problems that arise from this issue:

- IT priorities are set by individual departments and not by central government
  - The departmental priorities may be different from those of the central government
  - Opportunities to achieve economies of scale may be missed
- New applications are developed by individual departments
  - Common architectural principles, standards and methodologies are not in force
  - There is little reuse of code and services
  - Each department has to re-invent the wheel
- Individual departments cannot afford to keep people with the skills necessary to manage major projects, as each department only has very large or specialized projects periodically
  - The central government should carry the specialized skills given the volume of new IT development that occurs across all departments
  - Succession planning, redundancy of skills, career path development, training, and performance and quality management are facilitated through a centralized pool
- There is limited sharing of data among departments
  - Similar data is stored in multiple locations
  - Storing and maintaining multiple copies is time-consuming and expensive
  - We have been told that at least six different major projects currently underway have independent person registries
- There has been limited development of an overall central government strategy or policies on common initiatives like the internet, intranet, help desks, interactive voice recognition, document management, workflow, or common databases and

applications. Each department is responsible for its own activities and does not have funding for common applications.

  - Redundant and inefficient development is taking place
  - The central government can better carry the business case than any one department for large infrastructure projects

- There is an uneven sharing of IT funding among departments
  - Smaller departments cannot benefit from the higher technology spending levels of the larger departments
  - The better IT resources are attracted into departments that spend more on technology thereby compounding the problems facing smaller departments

We believe that the governance and organization of the information and information technology function in central government requires fundamental change. It appears from our interviews and review of preceding studies that the current structure lacks the authority and capability to provide the required direction and leadership that the central government requires. We believe that the central government should initiate an in-depth process, to identify and implement an organizational structure that will use its information technology resources more efficiently.

We have outlined some preliminary thoughts on one alternative below. An in-depth review may identify other alternatives that are more appropriate. Alternatives will have to be assessed based on a broader context, in that they cross and alter departmental information technology responsibilities. This issue is too complex for the limited scope of this review.

In every large organization, information and information technology are increasingly important to the business being supported. New business strategies and information technology are so inter-linked in today's environment that it is difficult to have the former without the latter. Large organizations in today's environment recognize this dependency by including senior IT staff in high-level management discussions.

We believe that the central government should consider creating a new information technology position at the level of Deputy Minister (Deputy Minister of IT). The position should include the following responsibilities:

- ➢ The development of a business-driven, top-down, government-wide information and information technology architecture to provide a framework for future development. This architecture should more specifically:
  - Define the underlying technology infrastructure including standardization on operating systems, hardware platforms, communications protocols and database technology
  - Provide guidance and direction for integrating processes, applications, data and technology infrastructure
  - Accommodate new ways to communicate with other parties without having to make major changes to the underlying system
  - Facilitate information sharing across the organization
  - Eliminate redundant or counter productive efforts
  - Provide a master plan to guide individual changes
- ➢ The development of a central strategy and policy on items like the internet, intranet, government-wide help desk, interactive voice recognition (IVR), document management, workflow, common applications, central databases and overall integration
- ➢ The development of a standard application architecture that will identify common requirements and set standards and methods for application development and design

In order for this Deputy Minister to have any practical impact, the central government would have to enact additional changes:

- ➢ The Deputy Minister of IT would have responsibility for central government information technology funding and the allocation of that funding to various departments
- ➢ Board of Management would approve the overall IT strategy, IT budget allocation and key IT development initiatives

- ITSSC and ISAC would review the overall central government architectural principles and IT application development projects, as well as provide input to the budget allocation process
- Departmental information technology directors would report to both the Deputy Minister of IT and the departmental Deputy Minister
- The individual departments would still have responsibility for and ownership of new IT developments

In addition, we believe the central government should review the efficiencies to be gained from clustering different departmental services that have similar service delivery, information and information technology requirements. This concept of clustering, groups individual departments for IT purposes. It encourages joint planning and facilitates the sharing of IT staff, resources, data and application development. This approach has been adopted in several other provincial and territorial jurisdictions to enable common IT development and resources by sector. We believe this approach holds great potential for IT efficiency.

Review and comment on the central government's management of major information technology projects

As mentioned before, the central government has approximately $80 million worth of new information technology projects in a variety of stages from conception to in-progress. There are eighteen departments in central government that manage their own IT development. On average, each department has a huge project every ten years. In addition, there are another twenty smaller projects every year across central government. Departmental program managers manage these projects. These program managers have an in-depth knowledge of the departmental programs that they are re-engineering, but the skills they bring to project design, cost estimation and management vary widely.

The central government has experienced a number of problems with its management of major IT projects, as summarized below:

- The departments need a roadmap of where they're going in relation to the overall direction of the central government
- They have to re-invent the wheel in every department
- The departments are all doing their own thing with their own consultants
- There are no specialized IT project management skills across government
- Proper planning is not done up front
- Many projects do not take an end-to-end process view as this would require integration and standardization across multiple departments
- Many project teams lack process engineering expertise to ensure that processes change as well as the technology
- Departments do not have to follow standard guidelines on major IT projects
- Different methodologies are being used for different projects
- Projects are being developed to accommodate "wish lists" as opposed to "need lists"
- Scope creep and late delivery of projects are general problems
- The departments that use CIMS bring them in too late for CIMS to add maximum value

Based on the limited interviews we have conducted we believe the central government can improve its management of major information technology projects by undertaking the following initiatives:

1. The central government should strengthen its project methodology

- It should develop architectural principles that all new projects follow, for technology infrastructure and applications
- A quality assurance process should be put in place that ensures conformity to these principles
- New applications should be reviewed by ITSSC and ISAC to reduce overlap of efforts in different departments, and approved by the Board of Management through the Deputy Minister of IT.
- Techniques should be adopted that limit wish lists, like function point analysis that allocates costs to functions and then slims down the functions to only those needed

- Projects should be structured around three to six-month releases in light of long-term goals, in order to maintain focus, more effectively use staff taken off line functions, minimize staff turnover on projects, and more closely align the needs analysis with delivered functionality
- Project estimates should utilize appropriate costing methodologies, e.g. the inclusion of ancillary costs such as the cost to replace departmental staff who spend large blocks of time on the project
- A post-implementation process should be a standard part of every project to ensure appropriate assistance is available to the departments operating new systems, to utilize the knowledge of past problems and successes in future projects, to share newly acquired knowledge, etc.

2. The central government should set up a central (or virtual) project management office that will allow a greater level of specialization. The overall development activity of the central government should allow for the retention of highly skilled specialists that could implement best practices across departmental boundaries. Examples of appropriate specialists are:

    - Process engineers
    - Architects
    - Project managers
    - Database designers
    - System designers (e.g. Internet design, User-centered design, etc.)

We believe the above initiatives would improve productivity, reduce the overlap between departments, maximize re-use of previous work, reduce the level of scope creep, maximize the number of projects delivered on-time, and improve the overall quality of projects delivered. The implementation of modern IT project management methodologies by skilled specialists that work on numerous government projects, would improve the management of these projects and reduce repetitive errors.

Comment on other issues that affect the information technology capability of the central government that arise in the performance of the above reviews

In the process of our review we noted a number of other issues which we thought to be important. These are items the central government should address to enhance efficiency, reduce costs or sustain the value of past investment. The potential cost efficiencies of implementing these initiatives are significant.

Centralized Help Desk

Technological advances, including desktops, laptops, local area networks (LANs), WANs, office automation, internet, remote office access, e-mail, etc. offer many new opportunities for improving the central government's business processes. However, the variety of new technology also increases user frustration and heightens demand for quality support. A user should not have to determine whether the problem is an application, network or hardware problem and decide where to go for assistance. A help desk provides a single point of assistance.

Currently, help desks are spread across eighteen different departments. These help desks have different skill levels and resources. We believe the central government should investigate the cost savings, efficiency and service level available through the implementation of a centralized government help desk.

A central government or "virtual" help desk could:

- Reduce redundant resources
- Facilitate the sharing of problem resolution information
- Allow the use of sophisticated software to support help desk operations and provide management information
- Achieve economies of scale through the installation and use of help desk software
- Provide centralized break and fix, initial installation and other services
- Assist in the efficient scheduling and training of help desk staff
- Minimize the quantity of telephone numbers required when assistance is needed

The central government could start this process with a cost / benefit analysis based on a survey. If justified, a few of the larger departments could then be selected to participate in a pilot project. This would provide the necessary critical mass to start, with other departments added later. Subsequent to consolidation, the government could investigate the economies to be gained from outsourcing this service. The transition, of course, would have to be managed appropriately.

The resources for a centralized help desk would not have to be in one location. It could be established on a virtual basis. It might also involve regional call centers. We would be pleased to discuss various alternatives available to you should you wish further information.

Desktop Management

The central government should investigate the cost / benefit of "Evergreening". This is an arrangement whereby the vendor agrees to replace all equipment with current technology every two to four years and will take back the old equipment. The advantages to this arrangement include:

- Assurance that the system utilizes current technology
- Spreading of capital acquisition costs across fiscal years, avoiding the need to make substantial periodic capital investments to replace obsolete equipment
- The vendor assumes responsibility for removal of obsolete equipment, which many organizations tend to put into use elsewhere simply because they have the equipment
- Potentially increased purchasing power with the vendor through volume discounts
- The central government may be able to negotiate vendor responsibility for guaranteeing compatibility of all new systems with government-established standards for software applications
- More equitable spending on computers for staff in both large and small departments

The central government should consider longer-term contracts for original equipment manufacturers of hardware, i.e. brands, to obtain the benefits as described above. It can still tender local resellers on a six-month basis to obtain price deflation because of technology advances.

Standards

The central government should consider strengthening its standards on servers and software. Communication of information, integration of data and help desk support are all simplified if the proliferation of different hardware and software is minimized. The central government should consider trying to limit the number of versions of software in use to two. This will slow acquisition of new versions, but will simplify support and cross-department compatibility.

Staffing

Recruitment and retention of IT staff with the appropriate skill is an industry problem and the central government faces the same issue. Numerous internal staff have been hired by external consultants and are now being contracted back to the central government at higher rates, in some cases twice what the central government was previously paying.

We understand that the central government currently has a study underway on "Managing, Retaining and Recruiting for the I.T. Profession". It has also implemented an across the board compensation adjustment for IT staff to make compensation levels more competitive. We believe the central government will have to re-address items like compensation and benefits, career path planning, training, etc., in order to attract and retain the skilled individuals it will require to manage and improve its information technology infrastructure. Other organizations have successfully utilized bonuses for retention, specialized skills, Y2K, large project knowledge or outstanding performance, in order to attract and retain skilled individuals. We believe the central government should consider the use of these bonuses for highly skilled staff that are in demand. IT staff compensation, of course, cannot be changed without considering the impact on non-IT staff.

People under contract currently carry on a high percentage of regular system operations. Although a certain amount of contract staff is healthy to an organization, extensive use is very expensive. We believe the central government should review the cost efficiency of having regular system operations carried on by external parties.

Government-Wide Intranet and Internet Website

The central government should review the benefits to be gained from the implementation of a government-wide intranet. An intranet essentially looks like the internet, is accessed using a browser such as Netscape or Microsoft Explorer, but is only available to those inside government with the appropriate security clearance. It is secured from outsiders by a firewall. An intranet enables employees to find information when they need it, and to cut and paste it into their work. People save time because they are not duplicating work. Instead of government information stored on stand-alone PCs, filing cabinets or huge piles on desks, information is online and available for use by all.

Similarly, the central government should review the benefits to be gained from the implementation of an internet-based website that provides a more user-centred, integrated view across the departments. We understand that the current website has generally been developed by individual departments. If a user does not know which department offers the particular service the individual is looking for, the information is very difficult to find. A more coordinated approach to this issue would reduce duplication of effort, increase standardization and provide a more usable site.

Business Continuity Planning

Business continuity planning includes business interruption, disaster recovery and contingency planning. We understand that business continuity planning has historically been a very difficult item to implement across central government given the self-insured culture. Business continuity planning consists of recovery plans and technology that ensure the continued operation of critical government functions when threatened by unforeseen circumstances. A considerable amount of work has been done in this area because of the year 2000 issue. The central government should maintain the recovery plans for critical functions on an ongoing basis to ensure the benefit of this previous work is not wasted.

Investment Versus Cost

We have been told in some of our interviews that the initial cost of an IT project receives more focus than the long-term benefits that will accrue if the project is successfully completed. IT development expenditures have to be viewed as investments that pay long-term dividends. Almost all IT projects follow a bell curve progression. The costs increase through the period of development and implementation and then drop off as the new system comes on-line. While the initial cost is an important factor, it can not be viewed in isolation. An improved cost / benefit methodology will assist the central government in balancing the long-term benefits versus the initial cost of new IT infrastructure projects.

Concluding Remarks

In common with many organizations over the last few decades, the central government's information technology environment has evolved from a centrally-controlled mainframe structure to a decentralized structure effectively controlled by individual departments. This shift in control from a central agency to individual departments has resulted in a fragmented information technology strategy for the central government. This, in turn, has caused:

- The lack of a cohesive government-wide information technology strategy
- Redundant effort by different departments on common issues and opportunities
- Increased costs because multiple copies of common information are stored in different departments rather than a central information warehouse
- An inability to attract and retain the specialty skills required to properly plan, manage and control the central government's information technology infrastructure
- Lack of action on significant cost efficiency initiatives like the clustering of IT resources for similar service lines, the implementation of a centralized (virtual) help desk, or government-wide intranet and internet development

We believe the government has to fundamentally change the governance and organization of its information and information technology resources. It has to create more balance among the departments responsible for program delivery and a central agency that can implement a government-wide information technology strategy. Information technology has to be viewed as a resource similar to cash, people or capital assets. They all have to be managed to maximize their effectiveness.

Professional and Personal Service Contracts

Terms of Reference

"To evaluate the use of personal and professional service contracts against stated policy."

Background

Formal documented policies and procedures have been established to govern the hiring and ongoing employment of staff in the New Brunswick Public Service. The authority for the recruitment and staffing in the New Brunswick Public Service is found in the following Acts and regulations:

- Financial Administration Act
- Civil Service Act and regulations
- Public Service Labour Relations Act

These Acts provide legislative authority with respect to staffing, appointments and the determination of terms and conditions for employment. The powers and functions in relation to personnel are directed to be exercised by the Board of Management through the Secretary of the Board of Management. The Lieutenant Governor in Council appoints the Deputy Minister of Finance as the Secretary of the Board of Management. The Secretary and the Board of Management are therefore responsible for the determination of human resource requirements of the Public Service and must also determine the allocation and effective use of these resources.

Departments are staffed under authority delegated from the Secretary of the Board of Management. The Deputy Ministers and their designates play a critical role in the staffing of the Public Service. It is these people who have a direct knowledge of the staffing needs of their departments and the basis for which recruitment takes place. Human resource professionals within the Department of Finance assist Board of Management and the departments in the development and maintenance of human resource policies, procedures and interpretations. This group also, on an ongoing basis, reviews and evaluates the staffing activities within the Public Service and provide suggestions and advice on legislative changes needed.

As authorized by the Civil Service Act, Deputy Ministers hold responsibility for:

- Selection and appointment of candidates to vacant positions
- Transfer of employees
- Reclassification of employees
- In certain circumstances, the promotion of employees

The Civil Service Act goes on to state "*appointments to and from within the Civil Service shall be made by competition, or by such other process of personnel selection, designed to establish the merit of candidates as the Secretary of the Board considers is in the best interests of the Civil Service*". Merit is accepted to mean the most qualified candidates either by competition or by such other human resource selection as permitted.

However, appointments are permitted without competition under the Civil Service Act in the following limited circumstances:

- Casual or temporary appointments
- Ministerial appointments
- Special employee development programs, examples being: Career Development Program for Administrative Support Staff; Executive Assignment Program
- Special employment programs such as Equal Employment Opportunity Program
- Transfers
- Professional, scientific and technical appointments

In recent years, Governments of the Province of New Brunswick have downsized the Civil Service. This was to assist in meeting budget constraints. Therefore, to meet immediate needs, departments utilize casual and temporary appointments or personal and professional service contracts.

It is important to note that departments cannot fill positions, either through the competition or non-competition approach, without an existing approved full time equivalent or Board of Management approval for additional full time equivalents.

Under the Civil Service Act (section 6(2)), when filling a regular, permanent full-time, part time, term or seasonal civil service position, no appointment can be made to or from the Civil Service unless a vacancy exists in the portion of the Civil Service to which the appointment is to be made.

The Province of New Brunswick Administration Manual System, section AD – 2916, includes a policy dated September 1998 with respect to personal and professional service contracts. The policy includes the following:

- Distinguishes between personal and professional service contracts
- Personal service contract procedures
- Professional service contract procedures
- General information

Personal Service Contract Conditions for Approval

The following conditions must be met for approval of a personal service contract:

- The work to be performed must not fall within a classification covered by a collective agreement
- The nature of the work to be performed must be of scientific, professional, managerial or highly technical nature requiring an individual with special qualifications
- The nature of the work to be performed must not involve ongoing program service delivery to the public covered by existing position classifications on a long-term basis
- Personal service contract employment must be charged to full time equivalent (FTE) allocations.
- A personal service contract must not provide additional employment to a person already employed in the New Brunswick Public Service

- It must be possible to employ the person in accordance with the terms and conditions of employment provided to employees in the appropriate classification within Part one of the Public Service
- The individual must not be in receipt of a New Brunswick Public Service pension (except in circumstances provided for by Board Minute 94.0212 – Re-employment of Retired Employees)
- The employing department must have satisfied itself that no qualified employee is available on any existing redeployment list

Professional Service Contract Approval

All professional service contracts are subject to the guidelines and policies established by the Department of Supply & Services, Purchasing Branch.

The department is responsible for the provision of central services to all departments and agencies of the Provincial Government.

The procurement group of the services division is responsible for the operation of central stores and the tendering service to meet departmental and agency requirements. The Executive Director, Supply and General Services is responsible for the overall supervision of the procurement group.

The Department of Supply and Services, Purchasing Branch is responsible for acquiring goods and services in excess of $10,000. Specific exceptions apply and are identified within the policy statement. Goods and services under $10,000, or subject to the exemption list, are the responsibility of the initiating department.

The policy and procedures utilized by Supply and Services were reviewed during our engagement, however excerpts are not provided given the size and detail of the manual.

Issues

Personal Service Contracts

Casual or temporary appointments are made to relieve short-term work pressures when extra assistance is required. A person hired by this means cannot be employed in any one section of the Civil Service for a total of more than 260 paid days in a 24 month period. This may be extended to allow a person to be employed for a total of no more than 28 months if covering off a position held by an employee on authorized leave.

Personal service contracts provide for the following features:

- Opportunity to negotiate and hire professionals and others with expertise required, creating an employee / employer relationship
- A recruitment tool with flexibility in negotiating for individual services
- An ability to match employment to project and funding timelines
- Ease of termination (usually 30 days notice)

At the time of our review, identified personal service contracts represent approximately 1.8% of the 15,117 people employed within part one of the Public Service.

We found no stated policy to determine when a personal service contract should be used versus casual or temporary employment. These appear to be decisions of the individual department at the time of hiring based upon the above noted features and constraints.

The issue to be reviewed is therefore, when personal service contracts are used, are all of the conditions for approval being met.

Professional Service Contracts

Professional service contracts provide for the engagement of an independent contractor to perform specific work. Contracts usually call for the accomplishment of a clearly defined task and normally do not require any further action by the contracting party. In these situations there is no employee / employer relationship as found in a personal service contract.

Throughout the past year there were 1,289 professional service contracts tendered by the Department of Supply and Services, Purchasing Branch.

The issue with respect to these contracts is, when professional service contracts are issued, do they meet the accepted criteria as established by the Department of Supply and Services.

Scope of Review Procedures

Pursuant to the terms of reference and with input from the Steering Committee, we obtained a listing of personal service contracts totaling 273 people as at July 6, 1999. From the list, a sample of 25 was extracted and employee files examined. We then proceeded to interview representatives from the Human Resource Sections of various departments regarding the hiring criteria and process used, specifically as they relate to the stated administrative policy.

To address professional service contracts, we interviewed representatives from the Department of Supply & Services, Purchasing Branch and the Department of Finance. We discussed and reviewed the departments' guidelines, policies and file documentation.

We also gathered information and reached conclusions through informal discussions with various employees in government.

Analysis and Conclusions

Personal Service Contracts

In our view, departments are making efficient use of personal service contracts as a tool to hire expertise required for a specified period of time. Whether the type of expertise being hired is consistent with the intent, when the policy was written, would be subject to debate. It is very difficult to give precise guidance as to whether departments are using personal service contracts to strictly hire "scientific, professional, managerial, or highly technical resources". The meanings of these terms are of course subject to interpretation.

For the employment files we reviewed we were satisfied there was approval for the hiring by the Deputy Head or designate as is required by policy. Documentation in the files also supported the contracts as personal service rather than professional service contracts.

However, in answering the specific terms of reference, we found stated policy procedures are not properly implemented in all cases.

During our review, and specifically for the sample selected, we found no documentation in employment files to indicate all conditions for approval of the personal service contracts were reviewed and all of the requirements met.

Thirteen of the personal service contracts sampled had no full time equivalents (FTE's) available as required by policy. Samples from the Departments of Finance and Health & Community Services were found to be meeting this policy. The Departments of Fisheries and Aquaculture, Education, and Economic Development, Tourism and Culture did not have FTE's available for all personal service contracts.

It is our understanding that certain departments are hiring staff for projects with Federal or other cost sharing and funding arrangements. When funding ceases, the personal service contracts can be quickly and easily terminated within 30 days notice. Personal service contracts are a useful tool in staffing projects and initiatives that are not part of departmental primary funding. However, this does not alleviate the requirement for departments to charge the contract to FTE allocations or to obtain Board of Management approval of additional FTE's for these contracts. Should costs incurred exceed project funding, the excess can directly impact a department's primary budget.

Full time equivalent allocations are utilized as a budgeting tool and help control the monies spent on human resources. The use of personal service contracts with no approved FTE, presents control risks, even with the availability of additional project funding. Administrative burden and risk are increased, as departmental finance officers must ensure:

- The funding is in fact available
- Is achievable in the anticipated amount
- Employee costs are not in excess of expected funding
- Contracts are terminated upon completion of funding

As noted earlier, one criteria for the use of the personal service contract requires the work being performed to be scientific, professional, managerial or of a highly technical nature, therefore requiring an individual with special qualifications. If a strict interpretation of this portion of the policy were applied, it would not seem unreasonable to expect the use of these contracts but only in exceptional cases. It might also seem reasonable if an individual is to carry out scientific, professional, managerial or highly technical functions, they would have obvious training or related work experience.

One of the policies for personal service contracts is the nature of the work to be performed must not involve ongoing program service delivery to the public by existing classifications, on a long-term basis. The contracts we reviewed were for terms of one to three years, with some being renewals. Departments consider contract renewal appropriate as funding may be on a year to year basis, however, the positions appear to be providing ongoing service delivery.

Professional Service Contracts

Professional service contracts through The Department of Supply and Services, Purchasing Branch appeared to meet the procedures and policies set out by the individual departments.

Recommendations

We recommend documentation be maintained in each employee file to support adherence to policy. This could be in the form of a checklist with initials or signatures indicating approval of each policy condition.

We recommend a review be performed, by department, to ensure for active personal service contracts, full time equivalent allocations are available to be charged to or determine what deficiencies exist. This will provide an accurate starting point for tracking by each department.

We also recommend policy be enforced to require in all cases, full time equivalent allocations for personal service contracts. This provides a means of control and approval through the Board of Management. During our discussions with department representatives, the following concerns were raised regarding applications to the Board of Management for FTE's:

- **Board of Management will not approve any additional FTE's**
- **Projects may not be initiated in a timely manner as the result of delays in obtaining FTE's**

We recommend personal service contracts be periodically reviewed for ongoing program service delivery on a long term basis. Where these conditions are met, the position should be regularized.

We also recommend all personal service contract positions contemplated require preparation of a position description questionnaire (guide). The questionnaire would assist in providing current and complete information regarding the position to be filled.

These measures (questionnaire) will provide human resource officers with the detailed information required to assess proposed positions against classifications covered by a collective or other agreement. It will also provide a means to assess applicants' resumes against the requirements of the position description.

Observations

Depending on how strictly the government of the day wishes adherence to and consistent interpretation of policy, consideration could be given to a periodic review of all personal service contracts by The Office of the Comptroller. This department can examine all hiring decisions for appropriate justification and documentation.

Consideration of a review of the process, timing and communications between Board of Management and departments with respect to FTE's may be useful. This may highlight areas where improvements on both sides can be implemented to alleviate concerns noted previously on the part of departments as to approval and timing.

Personal Service Contracts by Department

Department	*Number of Employees*	*Sample Selected*
Agriculture	9	
Economic Development, Tourism and Culture	60	10
Education	34	6
Environment	19	
Executive Council	4	
Finance	21	3
Fisheries and Aquaculture	28	3
General Government	2	
Health & Community Services	23	3
Human Resources Development	3	
Intergovernment and Aboriginal Affairs	5	
Justice	10	
Labour	3	
Legislative Assembly – Other	4	
Municipalities and Housing	15	
Natural Resources and Energy	17	
Solicitor General	5	
Supply & Services	11	
Total	273	25

Maintenance

Terms of Reference

"To evaluate the property maintenance budget of the Province in comparison to standard property management".

To identify best practices in property management as they impact on budget allocations.

Background

The property portfolio for New Brunswick public buildings, excluding schools and hospitals, has been analyzed to determine current levels of maintenance and capital spending. The data for New Brunswick was derived from:

- The Annual Report, Supply and Services, 1997-1998
- A computer listing of buildings owned and operated by the Department of Supply and Services detailing the building areas, maintenance expenditures for the years 1996/1997, 1997/1998 and 1998/1999 and an average per square foot cost. (Provided by Gregory Cook of the Department of Supply and Services.)
- Interview with G. Stephenson Wheatley, Deputy Minister, Department of Supply and Services and Gregory Cook, Executive Director, Facilities Management , Department of Supply and Services on August 24, 1999.
- Interviews with G. Stephenson Wheatley, Deputy Minister, Dennis Cochrane, Deputy Minister,Department of Education and Ron Breau, Director of Education Facilities Branch, Department of Education, on September 13, 1999.

Comparative data was derived from a number of sources:

- Detailed data was gathered for seven federal public buildings in the Maritimes
- The provinces of Newfoundland and Nova Scotia

- BOMA (Building Owners and Managers Association's) Experience Exchange Report 1998 data
- Selected private sector office facilities cost profiles from leading private sector property managers in the Maritimes

This data has been analyzed to arrive at comparisons on as equivalent as possible a basis.

Given the limited scope of our assignment, expenditure benchmarks are very general in nature and should not be considered definitive. To arrive at meaningful benchmarks, detailed profiling of buildings by class of building, type of occupancy, building type, size and age is required. The New Brunswick data is limited in that the age and quality of individual buildings are not available. In some cases the comparative data is provided for groups of buildings, in which case the sizes of individual buildings are not specifically known. Age and quality of buildings is also an unknown factor.

It is significant to note that:

- Unusual regional conditions that might impact maintenance cost profiles were not identified by any of the data sources
- Climate, often a prime determinate of overall operating costs, is not considered a significant determinant for purposes of maintenance cost benchmarking, as utilities and grounds are not a component of maintenance as defined below

The process currently used for maintenance budgeting was reviewed and compared with best practices in the property management industry.

Definitions

To ensure that data was as consistent as possible, the following definitions were provided with all requests for information:

Maintenance Costs - Repairs, supplies and equipment costs related to building maintenance. (For greater clarity this does not include utilities, cleaning costs, groundskeeping, security or administrative overhead)

Capital Maintenance - Major capital replacement (i.e. window replacement, roof replacement, etc.). Projects of a non-recurring nature or to upgrade an existing facility

Reserve Funds - Annual expenditures appropriated into accounts for future capital maintenance and replacements

Information was not always available in consistent formats and where adjusting assumptions have been made in interpreting data, they have been noted. To establish a common understanding of the terminology referred to in the balance of the report, the following definitions should be applied to the terms "preventative maintenance" and "planned maintenance".

Preventative Maintenance - In its most basic form, preventative maintenance is defined as:

- The periodic inspection of plant or building assets and equipment to uncover conditions that may lead to breakdowns and harmful depreciation
- Upkeep of buildings and their systems to maintain building components and equipment and to repair problems while they are still minor

The benefits of a preventative maintenance program are:

- Fewer major breakdowns
- Lower costs to repair problems uncovered on routine inspection versus overtime often associated with breakdowns
- Ability to plan and schedule staffing for more effective use of manpower resources
- Better spare parts management leading to lower inventory requirements
- Lower repair costs for simple repairs due to lower parts costs, and the need for less skilled labour

- Lower productivity losses with planned shutdowns versus those associated with major emergency shutdowns
- Reduction in cash outlays for premature replacements of equipment
- Lower long term capital costs resulting from increased asset life expectancy

Planned Maintenance - The regularly scheduled periodic refurbishment and replacement of building components to ensure that the building and its systems are in working order and that the maximum life expectancy of all component parts is achieved. Examples would be cyclical painting and carpet replacement.

Background Issues and Scope of Review Procedures

Maintenance Budgeting and Expenditures

It is reported that the total capital budget (which includes maintenance), ordinary account expenditures, has fallen from $5-6 million to $2.5 million in recent years. Ninety percent (90%) of costs in the approved operating budget envelope are fixed costs such as lease costs, energy, cleaning costs, etc. and administration. The balance of the budget has been allocated to maintenance. Since 1987 the budget has been based on the previous year's budget less a certain percentage (at least 0.5%). This budgeting procedure is somewhat lacking and has led to a systemic neglect of regular planned and preventative maintenance. Staff has been forced to delay spending until the end of the year to ensure no major unexpected emergency maintenance work needs to be done. Through a simple exercise in subtraction, whereby whatever money is left after final fixed costs such as lease costs, utilities etc. are able to be accurately projected for the balance of the fiscal year, the amount available to be spent on maintenance is derived. In a good year where fuel costs decrease or lease costs are re-negotiated downward, there has been extra money to get at "lower priority" maintenance or improvement "wish lists". Some money is used for equipment and building component maintenance and some for building upgrades such as painting and carpeting.

This budgeting procedure is somewhat inadequate. The process has not permitted satisfactory regard for the backlog of maintenance and refurbishing requirements. The Department of Supply and Services have compensated by utilizing "windfalls" from other spending categories. It is clear that these windfalls will eventually fail to meet even the basic needs and the backlog of needs will begin to overwhelm the resources at hand. A cursory visual inspection of certain assets indicates that the basic needs provisions are at the threshold of exceeding the resources at hand.

The annual capital budget of $2.5 million has been a relatively stable amount for roughly six years, which given inflation, represents a decline in maintenance activity. This decline in funding has occurred as the assets have aged, which typically requires the need for additional resources. In this environment of constraint, the practice has been to achieve the budget by limiting planned and preventative maintenance. The emphasis has been on keeping the physical plant running and dealing with emergency repairs as needed. The complaint is " we never have money to do it right, but always have money to fix it when it breaks". Staff expressed a need to increase the maintenance budget to former levels in the best interest of the Province.

By adopting the system or philosophy of having no choice but to accept "windfall spending" in preparing budget requests, there has been a failure to identify the true spending requirements. The annual budget request has remained constant. Because the system "survives" year after year on $2.5 million, despite annual requests for $5 - 6 million there is a false sense that $2.5 million is really sufficient. This correspondingly limits future options. What are unseen, are the major future costs and potential problems that are mounting from the ongoing neglect of the aging asset base and the impact this will have on future expenditure scenarios.

Capital Repairs and Replacements

As is common in government sectors, there are no capital reserve funds in the budgetary envelopes for maintenance and operations. This practice further limits the ability of property managers to adequately plan for capital repair and replacement work. However, given the budget request patterns of recent years and in the absence of formalized planned maintenance and preventative maintenance programs, it is difficult to predict the true capital funding requirement. Staff report that equipment records are inadequate. Concerns have been expressed for elevator performance and reliability. These are all symptoms of an inadequate maintenance program, ultimately leading to the possibility for total system failure.

Industry experience has proven that deferral of regular maintenance will result in an overall increase in total capital spending requirements. Failure to adequately maintain major building components, such as roofs, building envelopes and mechanical systems, results in a greater incidence of catastrophic and major failures. The result is the need to replace equipment earlier in its useful life than would otherwise be required, with the consequential financial penalties. As well, ancillary damage is caused by water leaks, freeze damage or other problems resulting from building component failures. Some examples include:

- The failure to maintain wood components through periodic painting or staining results in rotting and deterioration that leads to the need for replacement
- The failure to periodically inspect and caulk windows and other exterior components leads to water infiltration and building component failures that would not otherwise occur
- The failure to repair concrete cracks leads to water penetration, spalling and cracking and eventual degradation resulting in failure and replacements of building and landscape components

These are all examples where regularly scheduled maintenance will lead to the avoidance of major replacement costs.

It is reported that there is no vacant space in provincially owned buildings. This reportedly causes some difficulty in planning major capital improvements. Typically the Department of Supply and Services wait for an emergency, like the need to remove asbestos, before moving people out for repairs. This is also symptomatic of inadequate funding and the lack of a systematic approach to property management. It is our observation that options that would see temporary relocation into leased facilities while renovations are scheduled may need to be considered. A variety of options and approaches need to be considered for further evaluation and analysis.

No formal "needs based" capital planning program has been identified, but "wish lists" for repairs exist and there is a sense that some large projects need consideration. For example, the 250,000 square foot Centennial Building reportedly needs to have its 35 year old windows replaced and a new central HVAC unit installed. By observation, elements of the Legislature building such as the grand ceremonial staircase are in need of renovation. Staff have identified a need to examine a strategic renovation program for this key property. However, there is no formal process to review the needs and assess the building condition and establish a case for priority for a spending allocation. The implementation of this formal process is recommended as a first step in reviewing the approach to maintenance.

The Department of Supply and Services has produced a "Capital Projects List" for 1999-2000 with $2 million of general and specific projects. As well, there is a second list of projects deemed necessary totalling $7.7 million. It appears from these lists that $5.7 million worth of projects will be deferred. Upon examination, many of these projects are related to the structural components and building envelope, two areas where neglect can lead to far reaching ancillary damage if failures occur. In adopting a more aggressive catch up spending program it would be prudent to assess the criteria for prioritizing capital projects. Criteria for this exercise should include factors such as life safety, structural integrity, as well as aesthetics and overall life cycle issues related to the remaining useful life of the facility in question as well as alternative accommodation options.

An examination of the list of government owned buildings, of which Department of Supply and Services is responsible, excluding schools, indicates that only 31 of its properties are of a significant size (over 15,000 square feet) and of these only 15 are office or administrative facilities. The balance of the buildings are detention centres, museums, courthouses and other facilities. Developing a program to identify the administrative space requirements, as a base for evaluating the capital spending requirements for significant government owned facilities, would be a relatively manageable task. A program to evaluate building capital needs could concentrate first on the larger facilities. Proactive strategic planning, risk management modelling and prioritization management tools are required to maintain tight control of expenditures. A proactive asset management system will deliver asset managers with the data to make informed decisions about current and future expenditures, in a prioritized manner, to minimize and reduce "Crisis Management".

Anecdotal evidence suggests that recent spending has been even more restricted for educational facilities and the condition of school properties throughout the Province is of even greater concern for future capital spending. A similar review of school facilities and budgeting procedures may also be in order. Again, a proactive strategic planning approach is a prerequisite for the avoidance of "Crisis Management" for educational facilities. Specific asset management issues identified for the Department of Education will be discussed and recommendations will be put forward for consideration under the heading entitled "Education Department Maintenance Issues".

A sector by sector evaluation of building conditions and demand would be required to arrive at spending forecasts that reflect the true need and demand. The process should segregate leased building capital expenditure demands from maintenance requirements for owned buildings.

Furnishings and equipment needs are another component that is often overlooked in long term maintenance budget planning. While this factor was not examined as part of this study's analytical exercise, it should be considered as a prerequisite in any followup planning exercise.

Research Findings

From 1996-1999, New Brunswick's average overall annual expenditure for maintenance of public buildings (as noted previously excluding schools and hospitals) was approximately $2.5 million, or $1.41/square foot. This represented 20.85% of all property or premises operational spending before capital projects. When compared to standard property management this represents a *significant under funding of the maintenance function*. The following chart illustrates overall comparative spending by other regional governments, the federal government and the private sector:

TABLE 1 – Comparative Annual Maintenance Spending

Building Owner	Average Maintenance Spending Per Square Foot	% of Property or Premises Operating Costs
New Brunswick – All public buildings[1]	$1.41	20.85%
Buildings over 15,000sq.ft.[2]	$1.06	15.67%[3]
Newfoundland, buildings greater than 15,000 sq.ft.	$1.47	33.00%
Nova Scotia, buildings over 15,000 sq.ft.	$1.68	Not available
Federal Government – offices	$2.03	35.00%
Private Sector[4]	$1.38 class C $1.89 - average of all classes	28.00% 23.66%
BOMA govt.	$2.61	Not available

1. Building Type[a]: Eliminating college facilities, courthouses, tourist information centres, museums, corrections, and certain other facilities results in a drop in the spending average to $1.32.
2. Size: If all buildings under 15,000 square feet are eliminated from the analysis, the costs drop dramatically to $1.06/square foot. Eliminating correctional facilities, museums, courthouses and certain other facilities from this group further lowers the average spending to $1.02/square foot.[b]
3. Extrapolated from data.
4. The private sector sample size is too limited to be significant and is limited to office buildings, whereas public sector data includes a mix of building occupancies.

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[a] Benchmark studies have indicated that to arrive at meaningful guidelines buildings must be segregated by use, size, age and type. If categories are too broad the resulting benchmarks are not meaningful for comparison. For example, a 20 year old building with underground garage facilities will have a significantly different profile from a new building of the same size with all surface parking.

[b] Building size is a significant determinant of cost and must be taken into account when benchmarking. The smaller the facility, the higher average operating costs tend to be due to the fixed nature of certain costs. For example elevator maintenance costs are based upon the number of elevators and number of stops, not building size.

A breakdown of New Brunswick's spending by building size and eliminating various building usage categories, illustrates that spending varies by building type/use and size, but on a random basis:

TABLE 2 – Supply & Services Government Owned Buildings over 15,000 Sq.Ft. Excluding Corrections, Museums and other Facilities

Bldg. #	Building	Gross Area sq. ft.	1996/97	1997/98	1998/99	Avg. Cost /sq. ft.
136	Moncton Regional Centre	15,299	$ 39,055	$ 15,413	$ 19,332	1.61
035	Provincial Archives	20,274	52,062	14,741	10,435	1.27
089	St. Stephen Regional Centre	26,755	51,630	20,492	30,105	1.27
062	Government House	30,958	1,579	108	27,340	0.31
188	Campbellton Regional Centre	33,600	36,810	24,023	27,260	0.87
047	Agricultural Service Centre	35,257	21,274	22,897	37,592	0.77
075	Huttle Building	35,384	5,763	9,661	19,431	0.33
039	Research Station	45,218	126,448	18,036	29,702	1.28
095	Saint John Provincial Building	49,559	80,107	49,250	96,787	1.52
040	Fredericton Regional Centre	56,952	72,554	79,001	95,307	1.44
023	Justice Building	75,297	34,433	53,558	46,012	0.59
060	Hilton Road Complex	79,300	10,087	26,935	88,246	0.53
024	Legislative Complex	83,467	91,349	59,570	142,726	1.17
028	Marysville Place	189,042	141,754	214,243	363,906	1.27
004	Centennial Building	233,112	341,950	173,723	175,029	0.99
	TOTALS	1,009,474	1,106,855	781,651	1,209,210	$1.02

An overview of the spending patterns on these facilities illustrates an erratic pattern of spending and no easily discernable "benchmark" or standard for maintenance spending. Even a direct comparison of the Regional Centres illustrates a range of spending from $0.87 to $1.61 per square foot.

The focus on "survival management" has meant that there has been little attention to establishing a meaningful budget process that identifies basic requirements for preventative and planned maintenance in the upkeep of building components. The long term implications for public safety and the useful life expectancy of government owned buildings, are not understood. The current condition of facilities is also a major unknown factor and hence the budget requirement to bring buildings up to standard is also unknown.

Due to time constraints, our research has been unable to identify industry-accepted benchmarks for maintenance of publicly owned property. It is accepted that maintenance is directly related to a number of factors including:

1. Building occupancy
2. Building type
3. Building age
4. Building size
5. Underground versus surface parking
6. Type of building systems
7. Quality of original construction

Several "rules of thumb" for maintenance and repair spending are reported, but serve only as broad tests of spending adequacy:

1. Office sector pundits speak of spending between 1% and 2.5% of revenue on non-recoverable expense items.
2. The 2% Rule: Capital maintenance spending should equate to 2% of the asset replacement value.

The National Research Council has undertaken a number of studies related to capital maintenance spending levels in an attempt to address what they call "the growing problem by asset and building managers regarding when and how to repair and replace their building stock and components". A mid 1990's review of Canadian construction statistics indicated that $8.5 billion is spent annually on maintenance, replacement and repairs. According to Vanier and Lacrosse of the NRC this is well below recommended standards. Public sector constraints and cutbacks have exacerbated spending shortfalls in all of the regions contacted.

Recommendations

Based upon the review procedures performed, we believe the maintenance spending on Province of New Brunswick owned buildings in recent years has clearly been deficient, by any measure. To protect government assets and to prioritize future expenditures, while affording options on future decisions, there is a need to address the problem in a strategic manner. It is recommended that the following measures be considered:

1. A total asset management strategy is required for both government owned and leased facilities.
2. Review the capital maintenance budgeting procedures with the objective of establishing acceptable performance standards and criteria for both regular and planned maintenance as parameters for the process.
3. Adopt policies for the implementation of preventative maintenance programs in all government owned facilities.
4. Undertake a technical audit of all major government owned facilities to
    a) Evaluate the condition of facilities
    b) Establish requirements for planned and preventative maintenance requirements
    c) Establish a long term capital replacement program
    d) Develop guidelines for spending priorities
    e) Establish a framework for evaluating future accommodation alternatives
5. Undertake a review of the education sector that will consider the need for technical audits and establish preventative and planned maintenance guidelines for schools (see further discussion below).

6. Conduct a feasibility study for the renovation and upgrading of the Centennial Building. A review of government accommodation needs should form part of this feasibility study.

Sophisticated asset management software is available to assist in developing meaningful asset management programs. When designed in conjunction with other information technology systems in use by the government, these packages could provide an effective and efficient tool for planning, budgeting and asset management. Annual and multi year projections for capital expenditures can be easily facilitated, segregated by category of expenditure and government sector. Once building profiles and equipment are inventoried, the impact of deferred maintenance on capital budgets can be more readily examined. One of the benefits of a proactive management system, using technology, is it permits forecasting of capital budgets incorporating multiple repair scenarios. Capital planning strategies can then be developed to suit available funding levels. The introduction of priority and risk management into the capital planning process ensures the appropriate amount of resources is effectively allocated to the highest priority maintenance first. With this tool, the asset manager is able to make proactive decisions surrounding the actual amount of funding required compared to available funding.

In conclusion, the implementation of a "proactive asset management solution" minimizes "Crisis Management" and saves capital dollars through prioritized spending and protection of valuable assets.

Education Department Capital Maintenance Issues

Scope of Review Procedures

The 1998 School Physical Plant Review Study, a very comprehensive study of New Brunswick's 355 school buildings, was undertaken to assess the quality of existing facilities using current codes, regulations and space requirements for the delivery of educational programs. This report is very helpful as it is an excellent presentation of the data. However, the 400 pages of comprehensive data is less than sufficient in presenting the asset management issues in a form that elected decision makers can readily and visually use to evaluate the urgent need for action, and to address the requirements for multi year expenditures on the educational infrastructure in the Province. This data presented in 1998 could be inputed to sophisticated asset management software to create a first rate tool for the elected decision makers to visually identify needs and to make proactive decisions surrounding the funding required in the Educational Sector as compared to available funding.

We have identified some asset management issues that were not included in the 1998 report. We shall provide a brief summary of the issues and suggest that these issues require further in depth analysis and examination of alternatives before possible courses of action can be recommended.

The Province operates/maintains 355 educational sites. This has to be contextualized within the following order of magnitude of statistical figures: in 1971 the educational system had 162,000 students, in 1990 132,000, in 1999 128,000 and by the year 2011 it is projected that there will be 100,000. It is our observation that with the declining trends in enrolment, the resources required to maintain the 355 school sites have to be evaluated in the context of the broader demands for Provincial resources. It is not unreasonable to conclude that perhaps some of the 355 school sites have to be critically evaluated in terms of viability and potential cost savings.

Within our terms of reference, we had limited opportunity to specifically evaluate school sites for maintenance standards and issues. Based upon five sites that were randomly selected for visitations, it was observed that the actual school structures are maintained at a generally "acceptable" level. However, the immediate surrounding ancillary infrastructure (playground equipment, playfields etc.) was often not deemed to be part of the Department of Education's maintenance responsibility, and were not monitored to the same level as the schools. Specifically, it was noted that service clubs or home and school associations often provided these ancillary facilities, and it appeared no one accepts the primary responsibility for maintaining them in good order. The general disrepair of the ancillary infrastructure has a negative visual impact on the physical school site maintained by the Department, reflecting poorly on public perception of school maintenance standards. It is inappropriate to draw conclusions on these limited observations, however, it is our recommendation that further evaluation be carried out to identify the implications and risk factors resulting from this division of responsibility for the maintenance of school structures and the surrounding ancillary infrastructures.

Lastly, our visit and discussions with the Department of Education officials highlighted the current practice of using a "Roster Rotation" system for the maintenance of the school assets. Furthermore, the professional service providers under this system are compensated on the basis of a "percentage" of the maintenance and improvement costs. In other words, as costs increase for maintenance and repair, the compensation to the service provider increases. Based upon our professional experiences, we put forward the following observations: The Ministry of Transportation in Ontario eliminated the "Roster Rotation" system, for professional services for projects above a certain dollar level, about ten years ago. In its place they implemented a competitive bidding system. This policy change resulted in savings in professional fees of upwards of 20 to 30 percent. Again, we caution drawing conclusions on limited observations, but the examination of the "Roster Rotation" system warrants further attention.

Program Announcements

Terms of Reference

"To review the program and project announcements made between January 1, 1999 and June 7, 1999 to determine if proper process was followed". We were further requested to limit our review to projects of a financial nature within Economic Development, Tourism and Culture (EDTC) and the Regional Development Corporation (RDC).

Background

In order to be able to begin our review we made the following determinations:

1. The "program and project announcements" to be reviewed were the official announcements made by either Communications New Brunswick (CNB) or the client Company (Company).

2. The "proper process" is that process as prescribed under Act, Regulations or Agreement as applicable. As we were dealing with two separate jurisdictions we make the following comments about those processes;

(a) Regarding EDTC:

The authority for the Minister to provide financial assistance under regular programs is vested in the Economic Development Act (EDA) and the associated Regulations.

The key sections of the EDA and its Regulations are:
EDA 3(1) states
"The Minister, with the approval of the Lieutenant-Governor in Council or in accordance with the regulations, may provide financial assistance to aid and encourage the establishment or development of industry in the Province and such financial assistance shall be in accordance with the terms and conditions

specified by the Minister or specified in the approval of the Lieutenant-Government in Council".

Regulation 3.3(1) states "*Subject to subsection (2), the Minister may, where the New Brunswick Industrial Development Board.....recommends such action, provide financial assistance to an industry under subsection 3(1) of the Act without the approval of the Lieutenant-Governor in Council".*

Regulation 3.3(2) goes on to state "*Subsection (1) does not apply if the sum of (a) the financial assistance sought ...... exceeds the amount of $100,000".*

EDA (1) states

In this Act... *"financial assistance" includes*

(a) "making a direct loan to a person,

(a.1) providing a grant to a person,

(b) guaranteeing the repayment of a loan made to a person,

(c) guaranteeing a bond or debenture issued by a person, or

(d) acquiring of shares in a corporation or company;"

"industry" means any commercial enterprise

Regulation 3 states *"the following are prescribed as industrial, commercial and business activities to which the Minister shall not grant financial assistance under subsection 3(1) of the Act:*

(a) logging;

(b) primary agriculture;

(c) primary mining;

(d) quarrying;

(e) broadcasting;

(f) transportation;

(g) communications;

(h) publishing of news periodicals;

(i) generation of electricity;

(j) retail trade;

(k) food catering;

(l) warehousing;

(m) provision of personal services; and

(n) Repealed"

EDA 7(1) states

"Subject to subsection (1.1), the Minister shall not take any action under subsection 3(1) unless:

(a) the Minister has received an application for financial assistance under subsection (2) and has referred the application to the Board (NBIDB), *and*

(b) the Board, after duly considering the application, has transmitted its recommendation to the Minister".

EDA 7(6) goes on to say

"The Minister is not bound by a recommendation of the Board made under this section".

Regulation 9 states

"An application for financial assistance shall be in writing and set forth not less than

(a) the financial assistance requested,

(b) the purpose for which the financial assistance is requested, and

(c) the financial situation of the applicant".

(b) Regarding RDC

We obtained information pertaining to the background and operations of RDC from Mr. Gilman, Vice President of Finance and Administration and Mr. Paulin, Manager and Corporate Secretary.

RDC operates under the provisions of the Regional Development Corporation Act which sets out a number of broad objects and purposes related to providing financial assistance to regional economic development programs and initiatives.

We focused our review effort, for RDC funded projects, on two programs – The Canada / New Brunswick Regional Economic Development Agreement (REDA) and the Province of New Brunswick Economic Development Fund (EDF). An outline of the processes for the review and approval of project proposals under each program follows.

REDA

Paragraph 4.1(a) of the RDC Act states that one of the purposes of the organization is "*to administer and manage development agreements between the Government of the Province and the Government of Canada as assigned by the Lieutenant-Governor in Council*". Provincial administration of the REDA program falls under this provision.

Project funding applications made to REDA are subject to the general provisions regarding project approval and administration under an agreement dated July 31, 1996 between the Government of Canada, as represented by the Minister for the Atlantic Canada Opportunities Agency (the ACOA Minister) and the Government of the Province of New Brunswick, as represented by the Minister responsible for the Regional Development Corporation. Typically, funding applications are received from other provincial government departments.

The REDA Agreement provides for the establishment of a management committee consisting of two voting chairpersons. One is appointed by the Federal Minister and the other by the Provincial Minister. The management committee, among other things, is charged with the responsibility to approve projects. To this end, a set of procedures has been established to control the review and approval of proposals (requests for financial assistance) in a uniform and consistent manner. These procedures are as follows:

1. Proposals must be prepared under established guidelines
2. Proposals are subjected to analysis by both RDC and federal officers in standardized format
3. Officers in step 2 provide recommendations to management committee
4. Presentation of the proposals by representatives of the originating provincial department to management committee
5. Management committee's decision is documented on a Project Authorization Form
6. After both co-chairs have signed the Project Authorization Form, a letter of offer is sent to the Deputy Minister of the originating department. If accepted, the Deputy Minister signs and returns the form to RDC.

EDF

EDF is a provincial fund established under an Order in Council for a four year period ending March 31, 2000. Its purpose falls under the general mandate of RDC as established in the Act described above.

As with REDA proposals, a standard set of procedures has been developed to deal with the review and approval of project proposals (requests for financial assistance). An outline of these are:

1. Each year, typically in early fall the president of RDC sends a memo to Deputy Ministers of provincial departments requesting they submit proposals
2. Proposals are submitted under established guidelines
3. Proposals are subjected to review by RDC officers in standard format on a Proposal Summary and Review Sheet
4. Informal consultation by the President of RDC with the affected Deputy

5. Proposals from Step 3 are submitted to the RDC board of directors for review
6. RDC presents to the Board of Management a recommendation for funding consideration. Board of Management makes the final decision on the allocation of funds.
7. After Board of Management approval, originating departments are advised of the funding.

It should be noted that all proposals for a given year are submitted as a group to the Board of Management and all are approved at the same time. This approval was granted in October 1998 for the fiscal year ending March 31, 2000.

Scope of Review Procedures

Regarding EDTC

To proceed with our detailed review we:

1. Determined those files to be included. We met with Mr. Scott, Director of Communications and Promotions for EDTC. We requested he provide us with a listing of companies for which there had been announcements made by either Communications New Brunswick or the Company during the period January 1, 1999 to June 7, 1999. We suggested we were interested in looking at larger assistance files, and as a result, did not request Small Entrepreneur Capital Assistance Program (SECAP) files. Mr. Scott indicated there were not often public announcements on SECAP files in any event. The listing was provided to us. Subsequent to receiving the listing and to help ensure we had received all files with announcements from Mr. Scott's office, we provided him with a listing of 33 additional funding projects and requested he review each for announcements. This effort produced two additional companies with announcements. Finally we reviewed the CNB website news release archives. Having followed the above steps we felt comfortable we had the complete population of files to be reviewed.

2. Determined those key steps critical for "proper process". The review procedures performed on each identified file were:

   (a) Per Regulation 9 - Review files for evidence of application for financial assistance
   (b) Review files for existence of Project Executive Evaluation
   (c) Per EDA 7(1)(a) & (b) - Review signed minutes of the New Brunswick Industrial Development Board (NBIDB)
   (d) Review the Records of Decision of
      (i) Board of Management
      (ii) Executive Council
   (e) Review the signed Order-In-Council
   (f) Review the communications file for the announcement date and relevant materials

Regarding RDC

To proceed with our detailed review we:

1. Determined those files to be included. We met with RDC representative Mr. Paulin. From his input it was determined that the most significant funding activity took place under REDA and EDF. Accordingly, it was decided to focus on project announcements from these two programs for the time period January 1, 1999 to June 7, 1999.

   REDA

   Upon request, Mr. Paulin provided us with a list of project announcements for REDA funded projects during the time period. To help ensure we had received all projects with announcements we reviewed Communications New Brunswick news release archives. From the combined listing we reviewed a sample of the files on the listing with an emphasis on those later in the period.

EDF

All EDF funding assistance is authorized once a year. Because of this, the population of files to be reviewed was considered as those files approved in October, 1998. We determined we would review a sample of these files.

2. Determined those key steps critical for "proper process". For both REDA and EDF files we reviewed those procedures as outlined earlier for their respective programs.

Analysis and Conclusions

Regarding EDTC

Generally we found the files to have been subjected to "proper process". EDTC staff were knowledgeable, thorough and helpful. Of the twenty-three files reviewed, exceptions to "proper process" were:

1. Evidence of a Request for Financial Assistance was not located in six files. It should be noted that in discussion with EDTC staff, these omissions were in "development files" only. These are files prepared for companies being approached by EDTC to move into or expand in the Province of New Brunswick. Given the high probability EDTC personnel have initiated contact with the Company (rather than the Company first approaching EDTC) in an effort to attract that Company to the Province, a Request for Financial Assistance is more difficult to obtain. We feel consideration should be given to eliminating the requirement for a Request for Financial Assistance for all "development files".

2. Company 1 - In this file we found a signed Memorandum of Understanding that had been issued without a proper caveat indicating the contents of the Memorandum were subject to approval by the appropriate levels of government including the Lieutenant-Governor in Council. In discussion with EDTC staff and given an

announcement date of February 4, 1999 for a file with an August 19, 1998 OIC, it appears this was simply an inadvertent administrative error.

3. Company 2 - In this file the NBIDB minutes were dated after the Records of Decision of Board of Management and Executive Council and the OIC. This is clearly in violation of EDA 7(1) which states "*the Minister shall not take any action under 3(1) unless....(b) the Board, after duly considering the application has transmitted its recommendation to the Minister*" In discussion with EDTC staff it was acknowledged that this was a file where proper process had not been followed.

Regarding RDC

In general, we found that proposals received by RDC were subject to "proper process" and that program announcements did not occur until this process was completed. The process is well documented in the files that we reviewed and RDC staff were knowledgeable and helpful.

There were, however, six instances in our review where funding announcements were made prior to the completion of the review and approval process. These are as follows:

1. Chaleur Waterfront Master Plan – CNB news release dated May 6, 1999.
   At the news release date, RDC had not received a request to fund this project.

2. Lameque – Miscou Master Plan – CNB news release dated April 28, 1999.
   A funding request dated January 14, 1999 is on file at RDC, however, the review and approval process had not been completed at the date of the news release.

3. Cultural Tourism Marketing – CNB news release dated April 27, 1999.
   At the news release date, RDC had not received a request to fund this project.

4. Sugarloaf Park – CNB news release dated May 3, 1999.

A funding request dated November 17, 1998 is on file at RDC, however, the review and approval process had not been completed at the date of the news release.

5. Plage de l'Aboiteau Upgrade – CNB news release dated May 4, 1999.
   A funding proposal dated May 5, 1999 is on file at RDC. Final REDA Management Committee approval had not been given by that time.

6. Parlee Beach Master Plan – CNB news release dated May 4, 1999.
   At the news release date, RDC had not received a request to fund this project.

The appropriate funding approval for these projects had not been received prior to the announcements, nor had the funding approval process as outlined previously been substantially undertaken.

Federal Transition Funds

Terms of Reference

"To review the usage of federal transition funds that were earmarked for specific usage, such as highway funds, labour funds, freight rate removal funds and HST transition funds, to ensure the funds were properly used".

HST Transition Funds (HTF)

Background

The Province of New Brunswick (the Province) agreed with the Government of Canada in 1996 to convert from its provincial sales tax (PST) system to a new sales tax system called the Harmonized Sales Tax or HST. This new system combined PST and Federal Goods and Services Tax (GST) into one sales tax known as the HST. The implementation of the HST occurred on April 1, 1997.

Negotiations between the Province and the Federal Government regarding the possibility of converting to the HST began in 1994. These negotiations culminated with the signing of a Comprehensive Integrated Tax Co-ordination Agreement (CITCA) dated October 18th, 1996.

During the negotiations, the Province expressed great concern that the transition to a new system would cause their revenues to decline. To alleviate these concerns, the Federal Government agreed to provide assistance to the Province as outlined in an October 17, 1996 letter from the Federal Minister of Finance:

> *"By letter of March 29, 1996, Canada committed to provide adjustment assistance to the Province in the amount of $364 million over a four year period, commencing with the implementation of the harmonized sales tax system in order to facilitate the participation of the Province in the harmonized system. I confirm our current understanding that Canada agrees to make available*

> *adjustment assistance in the amount of $364 million to be paid upon the signing of the detailed agreement, now referred to as the CITCA. As you know, this assistance is conditional on the Province:*
>
> *(a) taking such steps as are necessary to implement the harmonized sales tax system, as of the effective date agreed upon;*
>
> *(b) maintaining the provincial element of the harmonized sales tax rate at 8% during the transitional period of four years commencing with the implementation of the harmonized agreement; and,*
>
> *(c) remaining a party to, and in full compliance with the CITCA during the four year transitional period."*
>
> *"If at any time the foregoing conditions are not met, it is understood and agreed that the adjustment assistance or any portion therefore, that related to that part of the adjustment assistance period during which the Province is not a party to, or is not in compliance with the CITCA, will become immediately due and repayable by the Province as a debt due Canada with interest".*

The Federal Government allocated the $364 million over the 4 year contract as follows:

	($ millions)
Year 1	$132
Year 2	132
Year 3	66
Year 4	34
	$364

The last clause in the letter from the Federal Minister of Finance in conjunction with the above allocation can be used to determine the amount potentially repayable to the Federal Government in the event the Province fails to continue to comply with the CITCA. For example, if a default occurred at the end of Year 3, $34 million would be repayable, plus interest.

The entire amount of the funding ($364 million) was received in advance.

The Province treated the entire $364 million received in its 1997 fiscal year as deferred revenue. In the 1998 fiscal year, the Province recognized $11 million as revenue leaving deferred revenue of $353 million to be recognized as revenue over the following three years.

The Auditor General disagreed with the Province's accounting treatment in 1998. He concluded that the Province should have recognized $132 million as revenue in 1998 and deferred the remainder.

Scope of Review Procedures

We met with representatives of the Department of Finance and the Auditor General and his staff. We reviewed relevant correspondence and agreements related to the HTF. We referred to the Public Sector Accounting Handbook (PSAB Handbook) of the Canadian Institute of Chartered Accountants which we adopted as the primary authoritative guidance on Public Sector accounting matters.

Analysis and Conclusion

The purpose of the HTF is to assist the Province with implementation of the harmonized sales tax system by compensating for potential shortfalls in PST revenue in each of the four years commencing April 1, 1997.

PST revenue was traditionally included in the general revenue fund of the Province. Accordingly, these HTF funds should also be included in the general revenue fund. The Province has adopted this presentation.

The other issue regarding usage of HTF relates to the timing of the recognition of these funds in the revenue of the Province.

The PSAB Handbook sets out at 1500.83 general provisions for revenue recognition. "*Revenues should be accounted for in the period in which the transactions or events occurred that gave rise to the revenues*".

Further guidance is found in Section 3410 which sets out criteria to be considered in deciding when to recognize government transfers as revenue. The section states that a government transfer should be recognized as revenue:

> *"in the period that the events giving raise to the transfer occurred as long as:*
>
> *(a) the transfer is authorized*
> *(b) eligibility criteria, if any, have been met by the recipient and*
> *(c) a reasonable estimate of the amount can be made*
>
> *The basis for determining the amount recognized for any particular transfer should be applied consistently from year to year. Judgement will be required to account for transfers in a manner that best reflects the substance of the underlying events rather than the form or the funding pattern".*

To determine the appropriate timing of HTF revenue recognition, it is necessary to apply the foregoing criteria to the particular situation.

The transfer of HTF funds became authorized when, on April 1, 1997, the Province implemented the harmonized sales tax.

The second criterion (satisfying eligibility criteria) is satisfied if the Province (1) maintains the "provincial element" of the HST rate at 8% during the four-year transition period and (2) remains a party to and in full compliance with the terms of the agreement during the four-year transition period. The satisfaction of this second criterion is accomplished with the passage of time.

The final criterion (reasonable estimate of the amount) is the most difficult to apply. Section 3410 requires the exercise of judgement to account for transfers in a manner that best reflects the substance of the underlying events rather than the form or the funding patterns. HTF funds were designed to alleviate concerns there would be a reduction in (PST) revenue for the Province. Accordingly, the optimal basis for recognizing the HTF funds as revenue would be the potential reduction in PST revenue in each of the four years of the agreement. Other possible methods include historical patterns, equal allocation to each of the four years and others.

Department of Finance representatives did not determine an allocation of potential revenue loss for each year that would have provided an adequate basis for revenue recognition. Accordingly, it is difficult to establish a basis that accurately reflects the substance of the underlying event.

In the absence of a reasonably defensible calculation of PST revenue lost, we support the conclusion of the Auditor General which is basically that HTF funds should be recognized as revenue when the Province has fully satisfied the conditions attached to the funding and there is no possibility that revenue being recognized can become repayable to the Federal Government.

Recommendation

Accordingly, $132 million of HTF funding should have been recognized as revenue by the Province in its 1998 fiscal year, a further $132 million should be recognized in the 1999 fiscal year and, assuming the conditions continue to be met, $66 million should be recognized in fiscal 2000 and the remaining $34 million in fiscal 2001.

Highway Transition Funds

Background

We have been asked to review two transition funds ((1) Canada - NB Highway Improvement Program and (2) Atlantic Freight Transition Program) as part of our review of Transition funds.

The Canada - NB Highway Improvement Program was begun in 1987 to assist New Brunswick with the development of its highway system. Over time there have been amendments to this program. Currently the program directs $300 million to highway construction over a 3 year period ending March 31st, 2001. This program is a matching program in that $150 million comes from the Federal Government after spending by the Province of the same amount. To date the Province's spending has not kept pace with the original plan and the result is that less Federal monies than were planned have been received. An extension to the original 3 year period for eligibility has been requested by the Province.

The second program, known as the Atlantic Freight Transition Program, has terminated after $242 million was spent on the National Highway System. Again, the funds were supplied based upon a 50/50 matching program ($121 million Federal and $121 million Provincial) This funding was originally provided from the Federal Government to offset the removal of freight subsidy programs.

Observations

Based on our discussions with senior representatives of the Department of Transportation, we have the following observations:

Federal funding for highway construction is currently declining with only one program currently in effect.

Federal funding to be received in the future will likely be directed towards the National Highway System with possible related threats to required funding for other highway systems in the Province.

The funds available for highway maintenance will likely have to be increased due to the increase in the kilometers of highway system in the Province.

Present levels of maintenance spending are significantly below suggested standards.

Labour Funds

Background

In accordance with our terms of reference, we reviewed, the Labour Market Development Agreement (LMDA) with senior representatives of the Department of Labour.

The LMDA was initiated in 1997/1998, with an indefinite term, to provide funding to the Province for the administration and implementation of certain labour market development programs previously administered by the Federal Government. Included in the funding are amounts to cover salaries and related costs of a number of individuals transferred from the Federal to the Provincial payroll.

The program is to continue for a minimum of five years and can be cancelled, thereafter, with two years notice. It is directed at EI claimants and incorporates specific targets.

Observation

Based on our discussions with senior Department of Labour personnel, we have the following observation:

LMDA administration

> The funding to the Province does not include provision for any management functions. Similarly, funding of approximately $6 million for related information technology development is less than the requirement by an amount estimated at between $2 million to $4 million. There is a question as to whether these costs can be properly charged against approved Federal program delivery funding. The Department of Labour has an opinion from the Department of Justice that a charge for management would be appropriate.

Additional Projects as Assigned by Steering Committee

Loan receivable - Algonquin Properties Limited

Terms of Reference

"We were requested to review the loans and advances to Algonquin Properties Limited by the Province of New Brunswick".

Background

The Province has been loaning and advancing funds to Algonquin Properties Ltd. (APL) since approximately 1973. The total outstanding amount of these loans and advances as of March 31, 1999 is in the order of $29.5 million. $9.7 million of this total bears interest at 9.06% with the remainder being interest free with no specific terms of repayment. APL is wholly owned by the Province and its general purpose is to administer the operations of the Algonquin Hotel in St. Andrews New Brunswick.

The purpose of the loans and advances has been primarily to finance capital expansion and renovation costs and, to a lesser extent, to finance operating losses of the hotel.

Scope of Review Procedures and Analysis and Conclusions

Through discussions with the Office of the Comptroller we are advised the loans and advances have been fully provided for in an allowance for doubtful accounts.

Yearly interest is charged on the loans and a corresponding allowance is set up.

To assess the underlying value of the loans would inherently require a valuation of Algonquin Properties Limited's assets and results of operations. The scope of this is beyond the terms of our review engagement.

Our comments are therefore based on the assumption the Province of New Brunswick is satisfied it is appropriate for the full amount of the loans to be offset by the allowance.

Recommendation

We recommend the Province of New Brunswick write-off all of the loans.

The decision to request the write-off must be done in light of various administrative factors, including whether it is still appropriate to continue to charge interest on the loans.

Department of Labour - Receivables as a result of loan guarantees

Terms of reference

We had no specific terms of reference with respect to this matter. The matter was brought to our and the Steering Committee's attention by the Department of Labour for our review.

Background

The Department of Labour has advised they currently have outstanding receivables as a result of honouring guarantees from certain Entrepreneurial and Student Venture programs. Funds were advanced to various individuals under the programs with the Province acting as guarantor in the event of default. When the Province was required to honour a guarantee and advance funds, a receivable was set up from the individual and the Province then attempted to recover it's funds.

Scope of Review Procedures and Analysis and Conclusions

These receivables have been fully provided for in the Department's allowance for doubtful accounts.

The department has advised it has exhausted all collection efforts and believes the receivables, in the amount of $2.8 Million are, in fact, uncollectible.

Recommendation

We recommend the receivables be written off.

Exhibit j

Grant Thornton

Chartered Accountants
Management Consultants
Canadian Member Firm of
Grant Thornton International

CONSENT OF GRANT THORNTON

We hereby consent to the inclusion of our report of a Financial Review of the Province of New Brunswick dated September 30, 1999 as Exhibit (i) to the Annual Report on Form 18-K of the Province of New Brunswick for the fiscal year ended March 31, 1999 and to the incorporation by reference of such report in the Registration Statement No. 33-89790 of the Province of New Brunswick.

/s/GRANT THORNTON

Chartered Accountants
Fredericton, New Brunswick
December 22, 1999

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